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# China Report

ECONOMIC AFFAIRS

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28 February 1985

## CHINA REPORT

### ECONOMIC AFFAIRS

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## NATIONAL POLICY AND ISSUES

### IDEAS ON HOW TO INSPIRE WORKERS, MANAGERS

Beijing GONGREN RIBAO in Chinese 6 Nov 84 pp 1-2

Article by Yu Guangyuan [0060 0342 6678]: "Vitality, Initiative and Reform"]

[Text] "The Resolutions of the CPC Central Committee on Restructuring the Economic System" adopted by the 3rd Plenum of the 12th CPC Central Committee pointed out that the basic tasks of this restructuring are: "According to the party's principle of always combining the fundamental theories of Marxism with the reality of China and according to the principle of correctly handling the experiences of foreign nations, to liberate our thinking further, to take our own road, to establish an economic system that possesses China's characteristics and that is full of life and vitality and to promote the development of social productivity." The "Resolutions" also pointed out: "Strengthening the vitality of enterprises is a key link in the restructuring of the economic system." Combining "vitality" with the restructuring of the socialist economic system provides us with the key to understanding the CPC Central Committee's demand to establish a new economic system in China.

So, what is vitality? "Vitality" is a specific property inherent in things. The shining vigor of the members of society, the flourishing development of economic and social undertakings, high efficiency, high speed, etc., although they themselves do not constitute vitality, are the manifestation of the nature of vitality. They are the results of vitality. It is not worth trying to define vitality, and the little I have said above is probably enough already.

The basic socialist economic system is the newly rising socialist economic system that is replacing a capitalist system which has already developed to the stage of collapse. The superiority of the socialist system is that it has passed strict scientific tests; moreover, this has been demonstrated by the history of socialist construction, including our own history of socialist construction. Thus, we must acknowledge that the basic socialist economic system is full of vitality. However, just as has been pointed out in the "Resolutions," because of certain reasons, reasons that have already been clearly explained in the "Resolutions," "aside from historical, political and ideological reasons, with regard

to economics, an important reason is that we have formed a rigid model in our economic system that does not correspond to the demands of social productivity." The superiorities inherent in a basic socialist economic system to this day have not been given full play. Thus, to borrow a phrase from the "Resolutions," "we are causing an originally exuberant socialist economy to lose its vitality to a large degree."

Hence, we have created this fundamental task, as has been pointed out in the "Resolutions," of "establishing a socialist economic system that possesses Chinese characteristics and is full of life and vitality."

Now I will make a short analysis of this vitality.

I will first explain the "vitality" that is discussed in the "Resolutions." It is the vitality of the entire economic system, including the vitality of all types of socialist economic organizations and the whole that is created by bringing them together. Yet due to the main problem solved by the 3d Plenum of restructuring the urban economy, "it was mainly urban enterprises that directly assumed the burden of industrial production, construction and commodity circulation." Thus, we must pay particular attention to the vitality of urban enterprises (especially large and medium-size enterprises of the system of ownership of the entire people). Thus, only making a short study of the vitality of these enterprises and using the enterprise as the target can we explain how vitality is produced in enterprises and explain how to strengthen the relationship between the vitality of an enterprise and the restructuring of the economic system. Many of the arguments concerning the problem of the vitality of enterprises and the problem of the vitality of the entire socialist economic system are the same. Having studied the problem of the vitality of enterprises and the problem of the vitality of the entire socialist economic system, I have basically come upon an explanation.

There is no need to say a lot. Everybody understands that in the realm of social history and in the entire life of society, vitality has come from the people. It is real people who create material wealth and spiritual wealth and who create culture. It is real people who have promoted and are promoting the forward development of history. Any socialist undertaking that we must competently run requires that the people engaged in this undertaking possess a high degree of enthusiasm for socialism. This type of enthusiasm can certainly be expressed in an extended period of labor and in increased labor intensity. Sometimes it is necessary to do it this way, yet this cannot become primary. Moreover, with regard to the goals of socialist construction, what must be achieved is not a strengthening of the period of labor but a shortening of the period of labor, and not an increase of labor intensity but a lessening of labor intensity. Therefore, under the socialist system, the high level of enthusiasm of the workers is mainly expressed in their initiative and creativity and is expressed in striving to raise efficiency. Workers come from the mental laborers and physical laborers of the broad masses of people in an enterprise's work. "The source of an enterprise's vitality lies in the enthusiasm, intelligence and creativity of the mental and physical laborers."



The workers in an enterprise can be divided into "managers" (we can also expand this category a little and call them "leaders of the enterprise") and the average workers who do the work in the enterprise. According to the "Resolutions," whether or not the enthusiasm, initiative and creativity in the production and management of an urban enterprise are given full play and whether the enthusiasm, initiative and creativity of all the workers are given full play, that is to say, whether or not the urban enterprise possess a good deal of vitality is a key issue in the development of our national economy. I am talking about two kinds of enthusiasm, initiative and creativity--that of the "enterprise's production and management" and that of the "workers." I feel that the enthusiasm, initiative and creativity of an enterprise's production and management also lie with the real people and especially in the enthusiasm, initiative and creativity of an enterprise's managers. The enthusiasm, initiative and creativity of an enterprise's workers, with regard to their fundamental ideological basis, is not in any way different from those of an average worker. They also depend on one's socialist conscience and on one's loyalty and dedication to the cause of socialist construction.

Yet the places in which this enthusiasm is currently expressed is inseparable from the workers' work post and responsibilities. For example, the enthusiasm of a worker who manufactures spare parts in the side operations of an enterprise will mainly be expressed in such ways as ensuring that the spare parts are completely up to quality standards and ensuring that even more is produced in a given period of time. Thus, the enthusiasm of one manager in an enterprise is mainly demonstrated in choosing a suitable management method, appropriately planning production, supply and marketing activities, rationally using funds, using the working force in accordance with its abilities, putting the management of the entire enterprise in perfect order, competently handling the work of the workers' wage bonuses, being capable of competently implementing the policy of distribution according to work, fully arousing the enthusiasm of the workers, etc.

We must see that the enthusiasm of an enterprise's leaders and average workers is a variable factor. The level of a person's enthusiasm first and foremost depends on their own inherent elements and, as was mentioned above, also depends on their socialist conscience, their loyalty and dedication to the cause of socialist construction, etc. These inherent elements as they concern the individual have certainly been formed over a long period of time, yet they are continuously being improved through study and education. At the same time there are also external conditions, and these external conditions, besides sometimes playing an educational role and possibly being transformed into inherent elements, are largely categorized as conditions which improve enthusiasm through bringing enthusiasm into play.

Generally speaking, there are many ways to lift the enthusiasm of the workers. For example, besides strengthening the workers' socialist education, which can be categorized as an inherent element in raising enthusiasm, we can also implement material rewards and moral encouragement

for the workers, develop work competition, provide auspicious conditions (work and study conditions) for giving play to and improving the ability of workers, establish outstanding relationships in the workers' environment, create a pleasant atmosphere, give workers the freedom to engage in creative labor and ensure and strengthen the position of workers as their own masters under the socialist system. This all has the effect of causing the enthusiasm of the workers to be given full play. I must say that only when we already possess the appropriate conditions to give play to the enthusiasm of the workers can the enthusiasm inherent in workers truly have an effect on their actual lives. At the same time, only then can the enthusiasm inherent in workers be able to improve greatly.

We once again return to the problem pointed out in the "Resolutions" of the relationship between giving play to the two types of enthusiasm--the enthusiasm of an enterprise's production and management and the enthusiasm of workers--and restructuring the economic system.

The key to giving play to an enterprise's enthusiasm is to expand the autonomy of the enterprises. If an enterprise has no autonomy or has little autonomy, the enthusiasm of that enterprise cannot be given full play.

When discussing the strengthening of the vitality of enterprises, the "Resolutions" also discuss the respective problems of the limits of the authority of the state and the enterprises. The "Resolutions" are obviously talking mainly about enterprises of the system of ownership of the entire people and are mainly looking at the situation from the viewpoint of large and medium-size enterprises. Since they are enterprises of the system of ownership by the entire people, in their relations with the state, they can only have a corresponding independence, that is, the state has the authority to intervene, manage and control the enterprises. This is necessary in order to make the economic activities of each enterprise correspond to the overall requirements of the state's economic development and at the same time, under the prerequisite of corresponding to the state's plan and management, to give the enterprises the power to plan their own production, supply and marketing, the power to use and allocate their leftover funds, the power to appoint and dismiss in accordance with regulations, the power to invite and select their own staff members, the power to decide for themselves the way to use labor and the form of bonuses, the power to determine the prices of their own products within the scope permitted by the state, etc.

If I were to say that this type of autonomy were a necessary condition for giving play to the enthusiasm of the production and management of an enterprise, then the necessary condition for giving play to the enthusiasm of workers is that "the status of the workers as their own masters is earnestly guaranteed in each system within the enterprise" and that "their work is closely related to their own personal benefits." We must then

achieve the three "everyones," namely, with all workers in their own posts doing their work with the attitude of being their own masters, everyone" should pay attention to the enterprise's management, everyone should note the enterprise's results and everyone's work accomplishments should be closely combined with their social glory and their material benefits."

The broad masses of workers are concerned about the following problem: in restructuring the economic system and carrying out a responsibility system for factory chiefs (managers), after stressing the leadership and production guidance for unifying enterprises, there is a problem with the relationship between the authority of the enterprise managers and the status of the workers as their own masters. We must pay attention to this problem. The following decision was clearly made by the 3rd Plenum: "When carrying out this type of centralized leadership and strict discipline, we must resolutely ensure that the broad masses of workers and the representatives that they choose have the right to participate in the enterprise's democratic management," so that "the authority of the enterprise's managers and the workers' status as their own masters are unified." "This unity is the necessary way correctly and effectively to give play to the enthusiasm of the workers."

It is obvious that when the two aforementioned types of enthusiasm, initiative and creativity are given full play, the vitality of all our enterprises is greatly increased, and thus our national economy can also make giant strides.

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NATIONAL POLICY AND ISSUES

MA HONG ON COMMODITY ECONOMY UNDER SOCIALISM

HK311010 Beijing JINGJI YANJIU in Chinese No 12, 20 Dec 84 pp 3-15

[Article by Ma Hong [7456 3163]: "A Further Probe Into China's Commodity Economy Under the Socialist System"]

[Text] Since the 3d Plenary Session of the 11th CPC Central Committee, we have implemented the policy of enlivening the domestic economy and opening to the outside world and have gradually carried out a series of reforms. In our rural areas, we have implemented many forms of the contracted responsibility system geared to families as units of operation, vigorously developed specialized households and diverse forms of economic combines, and helped our peasants to conscientiously expand commodity production. In our cities, we have adopted diverse kinds of economic forms and management methods. Regarding our enterprises owned by the whole people, we have correctly handled the relations between the state and the enterprises, expanded the decisionmaking powers of our enterprises, and substituted payment of taxes for delivery of profits. Not only have our collective and individual economic units already become independent accounting units that shoulder sole responsibility for their profits and losses, but our state-run enterprises have been gradually becoming independent accounting units that shoulder sole responsibility for their profits and losses. They have already become or are becoming independent or relatively independent commodity producers and operators. At the same time, we have vigorously developed external economic and technological exchanges, drawn in and utilized foreign funds, introduced advanced technology, set up special economic zones, and further opened a number of coastal cities. Adopting these policies has greatly promoted the development of commodity production and circulation. Practice over the past 5 years has proved that the CPC Central Committee's policies and principles are completely correct, have produced good results, and are wholeheartedly supported by the people of the country and appreciated by friends abroad. We are carrying out a very significant probe into the problem of building a socialist country with Chinese characteristics, as suggested by Comrade Deng Xiaoping.

The CPC Central Committee's correct policy decision complies with China's national conditions and is a summation of a better and more profound understanding of the nature of China's socialist economy. An important point is that we

have gradually abandoned the natural economic and semi-natural economic concept that a commodity economy is incompatible with a socialist planned economy. More and more comrades have gradually come to understand that the commodity economy is inherent in the nature of the socialist economy. The documents of the resolutions of the party and the government have more than once pointed out our task of vigorously developing commodity production and exchange.

In the reports and articles that I have written during the past few years, I have tried to probe somewhat into the nature of our country's socialist economy at the current stage. I have explained that the socialist economy is a planned commodity economy. Some comrades have raised their objection to this view and I myself have also wavered in my understanding of this view. I would now like to analyze the developmental history of the commodity economy and of people's understanding of the role and destiny of the commodity economy in the socialist historical period. Also, I would like to air my basic views on the concept that has arisen over the past few years that the socialist economy is not a commodity economy.

# 1. Changes in the Unverstanding of the Role of the Commodity Economy in the Socialist Period

The reason the socialist economy is a planned economy under which commodity exchange is energetically developed is that it has the attributes of the commodity economy. This understanding is a major breakthrough in traditional socialist economic theory.

Commodity exchange emerged in the last period of the primitive commune. In slave and feudal societies commodity production served the slave and feudal systems; in capitalist society, commodity production occupies a dominant position, so that even labor has become a type of commodity. Will commodity production, commodity exchange, and the commodity economy step down from the stage of history in socialist society? Can the socialist planned economy coexist with the commodity economy? Does the commodity economy exclude planned economic development? The views of Marxists on these questions have been changing and developing over the last 100 years.

While analyzing capitalist commodity production in "Das Kapital," Marx predicted that the same type of production of products carried out by Robinson Crusoe on the isolated island for his own various needs would reoccur in a society under public ownership and that therefore the relationships between commodities and commodity fetishes would wither away. Subsequently, in 1875, in "Critique of the Gotha Program," he explicitly pointed out: At the preliminary stage of a communist society (that is, socialist society), "producers [word indistinct] exchange their products, the labor consumed for the production of products will no longer manifest itself in the value of these products."<sup>1</sup> Both Marx and Engels time and again reiterated that they could only deduce the state of affairs in future communist society through their analysis of the capitalist economy of

their times, that the only conclusion that they could draw from this kind of analysis was that the public ownership of the means of production would inevitably replace capitalist private ownership, and that as to the details relating to the organization of the new society, they had to let these problems be solved by practice and they must not provide any "ready-made schemes" or "final law" that would fetter the limbs of the revolutionaries of later generations. However, for several decades after the deaths of Marx and Engels, due to the nonexistence of socialist practice, while expounding the basic characteristics of socialist society, theorists in scientific socialism generally regarded socialist society as one without commodity production and commodity exchange, that is a society without a commodity economy.

On this ideological basis, in "The State and Revolution," written before the October Revolution, Lenin put forward the supposition that under socialist conditions, the entire community should become a "syndicate" in which all members of the community were "employees of the syndicate." Since the entire community would become a big company, the relationships between commodities would no longer exist. This supposition of Lenin's reflected the common understanding of socialists at that time.

After the victory of the October Revolution, the Russian Communists began to build a socialist pattern which did not contain relationships among commodities. In 1919 in its party program, the Russian Communist Party took as its target the rapid elimination of the relationships between commodities and currency. But Lenin soon discovered that this would not do. So, in 1922, Lenin began to shift to the New Economic Policy under which commodity exchange between industry and agriculture was developed, small peasants were allowed to carry out free trade, "state capitalism was shifted to state regulation of commerce and currency."<sup>2</sup> State enterprises were required to carry out independent economic accounting, to assume sole responsibility for their own profits or losses, and to take part in market activities. This policy was a success. It promoted the rapid recovery and development of the socialist economy.

Although the New Economic Policy actually scored great achievements, in theory the question of whether the socialist economy was a commodity economy remained unanswered. As early as the period of the New Economic Policy, "leftist" (Trotskyist) theorists already claimed: With the existence of many new economic forms, the law of value can display its regulatory role only when a capitalist commodity economy exists. Any growth of relationships between commodities and currency and of the role of the law of value means the growth of the capitalist forces, and the deepening of socialist transformation means the strengthening of the role of another economic law--the law of socialist primitive accumulation. Following Stalin's "leftist" economic policy, the practice of materializing economic life was strengthened. After agricultural collectivization, Stalin pointed out that the working class and the peasant class exist and that there should be exchange due to the coexistence of the two ownership systems--the systems of ownership by the whole people and the collective ownership system. But the actual policy the Soviet Union adopted at

that time was depriving the peasants of their rights. Therefore, the questions of whether the exchange between the two ownership systems was commodity exchange and of whether the law of value displayed its role remains unanswerable. The "economic accounting system" adopted by state enterprises at that time was no longer an economic accounting system with sole responsibility for profits or losses, as proposed by Lenin. Value, price, and cost were regarded merely as accounting tools in Stalin's economic accounting system. Only in his later years did he admit in his article "Economic Problems of Socialism in the USSR," written in 1952, that there was commodity production and commodity exchange under the two public ownership systems and that the law of value should be applied. In the meantime he maintained: The production materials circulated under the system of ownership by the whole people were not commodities, as "they have gone beyond the scope of the law of value."<sup>3</sup> The law of value did not play its regulatory role even in the production of agricultural materials. Stalin also stressed that it was necessary to limit commodity production and the role of the law of value so as to replace commodity exchange with the exchange of products. Therefore, we can say that Stalin never regarded the socialist economy as a planned economy in which socialist commodity production and commodity exchange should be energetically developed. Although he probably intended to build a product economy as predicted by Marx and Engels (Marx's original words were "free exchange" economy) or a semi-product economy, in reality he merely created a natural or semi-natural economy. Based on the above understanding, the economic management system in Stalin's era was not worked out in line with the planned development of commodity production and commodity exchange, but according to the needs of a semi-product economy, which was in fact a semi-natural economy. Products were not regarded as commodities and there was no exchange of equal value. Instead, he enforced mandatory plans, removed regulation by the market mechanism, and adopted highly-centralized administrative methods. These methods proved successful in dealing with heavy industry, making preparations for the war to defend the country, and healing the wounds of the war. But the shortcomings of these methods were becoming more prominent following the development of the economy to a new stage. As a result, the Soviet economy could not be enlivened, the rate of development was slow, technology was at a standstill, economic results were not good and the people did not benefit much.

We have also undergone a tortuous course in understanding the socialist economy.

In the beginning, we followed Stalin's theory and his socialist mode and system. In 1956, in the course of summing up the first 5-year plan, we began to understand the shortcomings of the Soviet Union's system of excessively centralizing decisionmaking rights. This understanding manifested itself in the Decision of the Eighth CPC National Congress. It was also reflected in Comrade Mao Zedong's article "On the 10 Major Relationships" and in Comrade Chen Yun's articles and, in particular, his speech at the Eighth CPC National Congress. Unfortunately, our correct ideas were not implemented. Contrary to this, following Comrade Mao Zedong's criticism of "anti-rashness" in 1957, "leftist" erroneous ideas became rampant.

Beginning in 1957, Comrade Mao Zedong's viewpoints frequently changed. On the one hand, he made some good suggestions on developing China's commodity production and commodity exchange. For example, while reading Stalin's "Economic Problems of Socialism in the USSR," he criticized Stalin's viewpoint that production materials were not commodities and of refusing to sell agricultural machinery to the peasants. He pointed out: China is a country where commodity production is backward, more backward than in Brazil and India. Commodity production should be greatly developed. Commodities do not refer only to personal consumer goods; some production materials are also commodities. Even if socialist ownership by the whole people is completely realized, some localities will still need commodity exchange. In March 1959, in reference to "egalitarianism and indiscriminate transfer of resources" and "stirring up a communist wind" in the rural areas, he explicitly pointed out: The law of value "is a great school. Only by using it can we teach tens of millions of cadres and millions upon millions of people and can we build our socialism and communism. Otherwise nothing is possible. On the other hand, in his later years, he suggested that socialist commodity production and exchange of currency were similar to those in the old society and that they should be restricted under proletarian dictatorship.

In China's theoretical circles, Comrade Sun Yefang was the first to criticize the Soviet Union's economic mode and system, pointing out that they were a product of the theory of natural economy. He also sharply criticized Stalin's and other Soviet economists' erroneous views which regarded value and the law of value as alien factors in the socialist economy. But Comrade Sun Yefang did not agree with the view that the socialist economy is a commodity economy.

By studying and summing up the experiences and lessons in socialist construction in China and abroad and through the practice of enlivening the domestic economy and opening to the outside world over the past 5 years, we have now enhanced our understanding of the nature of the socialist economy and of the importance and significance of developing the socialist commodity economy. Therefore, we have the conditions to make more comprehensive analysis and reasoning on the nature and characteristics of the socialist economy.

## 2. The Socialist Economy Is a Planned Commodity Economy Based on Public Ownership

The socialist economy is a planned economy. This is one of its characteristics and must be affirmed. But affirming this point does not mean negating the fact that the socialist economy also has the attributes of a commodity economy. The opposite of the commodity economy is not the planned economy, but the natural economy. Comrades maintaining that the socialist economy is not a commodity economy actually set the planned economy against the commodity economy or regard the commodity economy as an alien force in the socialist economy. Practice in China's economic structural reform over the past few years has proved that the above view is unrealistic. One important aspect of economic structural reform is that while upholding the planned economy, it is necessary to organize the



economic activities of the entire society according to the needs of the commodity economy, to manage the principal aspects well and enliven the minor aspects, and to give vitality to urban and rural economic life under the prerequisite of developing the macroeconomy in a coordinated manner. We are required to admit in theory that the attributes of the planned economy and the attributes of the commodity economy can be made consistent in the socialist economy and that a combination of and meeting point between them can be found in practice. We should not embark on the old road of choosing either one or the other.

Why is it that the socialist economy has the attributes of a commodity economy? There are two reasons:

A socialist country has an important basis and condition for the emergence and development of the commodity economy--social division of labor. Lenin pointed out: "Social division of labor is the basis of the commodity economy. The processing industry should be separate from the mining industry, each being further divided up into some small and even smaller departments producing special products of the commodity type and carrying out exchange with all the other production departments. Thus the development of the commodity economy will enable the number of separate and independent production departments to increase."<sup>4</sup> In another article Lenin stressed: "The commodity economy develops along with the development of the social division of labor."<sup>5</sup>

Of course, the social division of labor is merely a general prerequisite for commodity production. Without different economic bodies having independent economic interests and without the difference between social and local labor, there can only be exchange within economic bodies themselves, and commodity exchange between different commodity producers is impossible, even if there is social division of labor. Are there then different economic bodies having independent economic interests in the socialist economy? The answer is affirmative.

First, under the socialist system, there are two public ownership systems: the system of ownership by the whole people and the collective ownership system. Undoubtedly, collective enterprises are independent commodity producers. Their economic relationships both with the state and among themselves should be of the nature of commodity economic relationships based on an exchange of equal value. Negating these commodity economic relationships will result in adopting a policy that harms the peasants' economic interest, and severe consequences are unavoidable. Such lessons are numerous both in the international communist movement and in China.

Second, in the socialist historical period, because the productive forces have not been developed to such an extent as to yield excessively products for distribution according to needs, labor still remains the principal means of life and labor capability is the "natural privilege" of laborers. Therefore, even in state-run enterprises owned by the whole people, there are still differences of material interests among laborers based on consistent fundamental interests. These differences of material interests should be regulated according to the principle of exchange of equal labor, as Marx clarified long ago. Practice has

proved that under the system of a division of labor determined by the course of socialization of production, because individual laborers can fulfill only one or several production procedures instead of producing a whole product, products will be manufactured by enterprises which are formed by laborers. Therefore, exchange of equal labor between laborers should first approximately manifest itself in an exchange of equal value between state enterprises. This determines that each state enterprise has relatively independent economic interests. This kind of relatively independent economic interests is also reflected in the certain extent of separation between the right of ownership and the right of use, management and administration. Therefore, our state-run enterprises cannot help but regard each other as relative independent commodity producers. Their relationships cannot but abide by the principle of replacement of equal value and exchange of equal value, that is, the principle of commodity economy. In other words, the contradictions among the economic interests of enterprises can be regulated only through the relationships between commodities and currency, which use an exchange of equal value as their basic characteristic. Thus, it is not strange that there are still extensive commodity relationships in a socialist country.

If we say that the fundamental consistency of material interests brought about by the social public ownership of production materials is the objective basis for carrying out the planned economy, then the differences of material interests among the people are the direct cause of the commodity economy being an inherent part of the socialist economy.

In short, it is incorrect to regard commodity relationships as alien factors in the socialist economy. As Comrade Deng Xiaoping pointed out when analyzing China's rural socialist economy: "It is certain that as long as production expands, division of labor increases, and the commodity economy develops, lower forms of collectivization in the rural areas will develop into higher forms."<sup>6</sup> Comrade Deng Xiaoping directly linked the development of the social division of labor and of the commodity economy with the development of socialist collectivization, affirmed the existence of the commodity economy in socialist society, and stressed the necessity of developing the commodity economy. This is a major contribution to the Marxist theory of the socialist economy.

Some comrades do not agree with the view of the socialist economy as a commodity economy. Their reasons are as follows: In socialist society, labor is no longer a commodity, and land, rivers, and mines are not the objects of business. Can we deny the commodity economy nature of the socialist economy on the grounds that in a socialist society, that labor is not a commodity and the land and mines owned by the state cannot be bought or sold? I think we cannot. Whether labor is a commodity and whether the land and mines can be bought and sold are not the symbols of the commodity economy. In a simple commodity economy, labor is not a commodity. Regarding labor as a commodity is a characteristic of the capitalist commodity economy. The fact that the state-owned land and mines cannot be bought and sold shows that commodity relationships under the socialist system are subject to certain restrictions, but this does not negate the fact that the larger part of socialist economic activities are carried out through the relationships between commodities and currency. Therefore, on the whole, the socialist economy is still a commodity economy.

A prevalent viewpoint is this: Instead of saying that the socialist economy is a commodity economy, we can only say that there is commodity production and commodity exchange in socialist society, because the production and management of the main part of the socialist economy--the state-owned economy--is not controlled by the law of value. This actually adheres to Stalin's viewpoint in "Economic Problems of Socialism in the USSR," which affirms that there is commodity production and commodity exchange in socialist society, but refuses to admit that the socialist economy is a commodity economy. Stalin did not admit that the production materials circulated under the system of ownership by the whole people were commodities and that state enterprises were relatively independent commodity producers and operators. Since socialist commodity production and commodity exchange are confined within the economic contacts between the two public ownership systems and within the scope of citizens buying personal consumer goods in state-owned shops, and the fact that state enterprises are relatively independent commodity producers is negated, it is impossible to talk about the socialist economy being a commodity economy. Therefore, over the last 2 years, following the emergence of the viewpoint of negating the idea of the socialist economy being a commodity economy, some people have refused to admit that the production materials circulated under the system of ownership by the whole people are commodities and that state enterprises are relatively independent commodity producers that can and must carry out independent management and assume sole responsibility for their own profits or losses. This viewpoint does not comply with the current reform of the economic structure. At present, both in the cities and the rural areas, it is necessary to energetically develop socialist commodity production and commodity exchange, reduce the scope of mandatory production and distribution of products, make better use of economic methods and the lever of value to realize state plans, gradually expand the regulatory role of the market mechanism, break away from the barriers of departments and regions, and carry out market competition between various economic forms and circulation channels. All this can be explained in a scientific manner only by applying the idea that the socialist economy is a commodity economy.

Some other people maintain: If the socialist economy is regarded as a commodity economy, state enterprises should appear as commodity producers and become independent economic bodies. This means the negation of the system of ownership by the whole people, the negation of the fact that a socialist country exercises ownership rights over production materials on behalf of the whole people, and the negation of the fact that laborers in a socialist country maintain their relationships on the basis of common occupations and joint labor. This viewpoint merits discussion.

First, we should make a clear distinction between a socialist commodity economy and a commodity economy based on private ownership. True, developing the socialist commodity economy will mean recognition of the relatively independent commodity producers. But such an "independent nature" is relevant and is different from the complete independence of commodity producers in the commodity

economy based on private ownership. Ownership rights, private rights, and management rights are distinct. That state enterprises have the right to use and manage production materials does not change the nature of production materials being owned by the whole people and does not change the ownership right a socialist country exercises over production materials in the interests of the whole people. Therefore, fundamentally speaking, it does not and cannot negate the relationship of common possession among laborers in a socialist state, in other words, it does not change the nature of the socialist ownership by the whole people.

Of course, admitting that the socialist economy has the attributes of the commodity economy and requiring state enterprises to function as relatively independent commodity producers means shifting state enterprises from the highly-centralized administrative and managerial system of direct allocation and use of production materials by the state to the operational system of enterprises carrying out independent economic activities suited to the development of the commodity economy with the approval of the state. Only thus can the initiative of enterprises be brought into full play and their vitality increased and can our whole national economy develop vigorously. In the past, due to the negation of the socialist economy being a commodity economy and of state enterprises being relatively independent economic bodies, the state directly allocated and used production materials and directly organized enterprises' production and marketing. As a result, enterprises became subsidiary bodies of state administrative organs. Practice has proved that this administrative and managerial system seriously hampered the development of the productive forces.

Experience tells us that it is impossible to carry out socialist modernization on the basis of the natural economy and without energetically developing the socialist commodity economy. In particular, the developing socialist countries should conscientiously get rid of the influence of the natural economy if they want to promote the rapid development of the social productive forces, so as to enable socialist society to enter the great development stage of the commodity economy. At the present stage, the development of China's socialist commodity economy means the development of the social productive forces and the progress of socialist construction.

In "Anti-Duhring," Engels said: "Political economy cannot remain the same while dealing with different countries and different historical eras." "Political economy is, in essence, a science of history, which deals with historical materials, that is, materials that frequently change."<sup>7</sup> Engels once criticized some people who always tried to find some ready-made, unchangeable, and eternal definitions and concepts from Marx's articles to apply them to practice instead of using practice to judge the correctness of a theory, concept, and definition so as to enrich them with the realities of life. He pointed out: "Needless to say, when matters and their relationships are not regarded as fixed but as changeable things, their reflection on the mind and their concept can change and become misshapen. We should not confine them to a rigid definition but should expound their historical or logical formation."<sup>8</sup> This basic principle of Marxist historical materialism should be taken as the guiding principle and the basis of methodology for probing into the nature of the socialist economy.

So, admitting, in line with the practice and experience in socialist construction, that the socialist economy is a commodity economy is a theoretical summation of the objective development of the socialist economy.

### 3. Characteristics of the Socialist Commodity Economy

The socialist economy is still a commodity economy, but it is different from either the small commodity economy or the capitalist commodity economy. It is a commodity economy with socialist features. On socialist commodity production and exchange, the resolution of the Sixth Plenary Session of the Eighth CPC Central Committee said: "Such commodity production and exchange of commodities differs from capitalist commodity and exchange of commodities because they take place in a planned manner on the basis of the socialist system of public ownership and not in an anarchic state on the basis of the capitalist system of private ownership." This is a scientific manifestation of the features of the socialist commodity economy. On these grounds, we can say that the socialist commodity economy is a planned commodity economy based on the socialist system of public ownership. Its features are expressed in the following two ways:

1) The socialist commodity economy is a commodity economy based on public ownership without the participation of capitalists.<sup>9</sup> The relations that the socialist commodity economy embodies are relations of mutual help and cooperation and equality and mutual benefit between socialist laborers. It no longer embodies the relations between exploiters and the exploited under the system of hired labor. As there is no exploiting class and as the laboring people have become masters of the state, the aim of production is to continuously improve the material and cultural livelihood of the whole people. Moreover, since the socialist commodity economy is based on public ownership and the means of production are possessed by united laborers, since labor is no longer a commodity and land, rivers, and mines are no longer the targets of free trading, and since people can consciously apply the law of value on the scale of the whole society, it is impossible for the development of socialist commodity economy to lead to capitalism. The socialist commodity economy is different from the capitalist commodity economy and from the small commodity economy. Still, it has the general features of a commodity economy. Therefore, in socialist commodity production there still exists the problem of a duality of labor (physical labor and mental labor) and duality of commodity (use value and value). In the relations of the socialist commodity economy, apart from the need to stress mutual help and cooperation among producers and to stress subordinating partial to overall interests and immediate to long-term interests, as dictated by the unanimous fundamental interests of the system of public ownership of the means of production, in all economic activities, we must take into consideration the differences in the interests of various sectors, implement the principle of exchanges of equal value, and meet the requirements of equality and mutual benefit.

2. The socialist commodity economy is one which is to be developed in a planned way given that the planned economy is implemented in the society as a whole. Therefore, it is not equivalent to an anarchic commodity economy. In a socialist economy based on the socialist system of public ownership of the means

of production, it is necessary and also possible for the state representative of the interests of all working people to regulate the development of the whole social economy in a planned manner. This is beyond the power of a society under capitalist private ownership. Only in this way can socialist commodity economy avoid the anarchy in production and exchange in the capitalist commodity economy and show harmonious development in a planned and proportionate manner.

Thus we can see that the socialist economy has the attributes of both the planned economy and the commodity economy. Commodity economy under the guidance of plans, or planned economy based on the commodity economy.

During the discussion in the previous period, some comrades did not favor the proposed idea of "planned commodity economy." They said: "The idea of socialism being a planned commodity economy is still based on the commodity economy--with the planned economy put in abstract terms and cast aside." In fact, the planned economy refers to the planned distribution of social labor in the national economy, or to a social system of guiding, organizing, and regulating social activities in a planned manner. Here, "guiding, organizing, and regulating social economic activities in a planned manner" must be based on the economic activities of numerous production units and operational units. The problem is whether these economic activities are natural economic activities or commodity economic activities. Since commodity production and commodity exchange exist between the two versions of the socialist economy--the state and collective economies--or within the socialist state economy and since economic ties between socialist enterprises must be realized through the relations between commodities and currency, the state's guidance and regulation of the national economy must be based on guidance and control of the whole sphere of social commodity activity. Our practice of planned economy in the past 30-plus years has shown that treating the socialist national economy as a predominately natural economy results in minor aspects (microeconomic enterprise activities) being rigidly controlled and would also make it impossible to really control or take good care of major aspects (the direction of development of the national economy and major proportionate relations). It was a misunderstanding of the idea of a natural economy and its harmful practice that caused such evil consequences as stagnation in the development of technologies a drop in efficiency, and a proportionate imbalance. Certain comrades subjectively want to practice the planned economy of "doing away with the interference of 'value,'" a planned economy that is to be realized in the advanced stage of communism on the basis of a product economy. But experience has shown that the idea of treating the socialist economy as a product economy devoid of the relations between commodities and currency in the future communist society is divorced from reality. In practice, the envisioned product economy will inevitably become a variation of the natural economy. Only a planned economy based on commodity economic activities can reflect the objective demands and the natural trends in the development of the socialist economy. The idea has been proposed that the two points, "a socialist planned economy is a planned commodity economy" and "a socialist economy is a planned economy given the existence of commodity production and commodity exchange," complement each other. This helps in drawing a clear distinction between a socialist commodity economy and a capitalist commodity economy. It also helps in getting rid of the wrong idea that lumps our socialist planned economy in with the planned economy under the backward conditions of a natural economy and in with the planned economy under the conditions of a future product economy.

The key to understanding the essential difference between the socialist commodity economy and the capitalist commodity economy, that is, a market economy that is entirely regulated by the market, is to understand the regulatory nature of a socialist market. In a capitalist commodity economy, the market has an absolute force and all policy decisions, macro or micro, are entirely dominated by the market mechanism and market principles. The state can apply certain factors of the law of value to affect economic development, but as a whole, the economic policy decisions of a bourgeois state are only able to follow the fluctuations of the market and are dominated by the alien and blind force of the market. Recognizing the commodity economy nature of our socialist economy of course means giving play to the role of the market mechanism in regulating the micro policy decisions of our enterprises. But the market in a socialist commodity economy differs from the market in a capitalist market economy. Because a socialist state is the representative of the socialist owners--the whole laboring people, and because it is the master of the state-run economic sector, it has many legal, administrative, and economic means (including wages, interest rates, taxes, prices, and other economic levers) to effectively regulate the market. Thus it has created an actual possibility for the market mechanism to be controlled by the macro regulation of the state, for combining micro policy decisions of enterprises with the macro policy decisions of the state, and for containing the micro-economic activities of enterprises within the scope prescribed by national economic plans. This means that it is entirely possible for a socialist state to consciously apply the law of value so as to achieve the aim of its planned economy.

To clearly define two distinctions--the distinction between a planned economy and a natural economy and the distinction between a socialist commodity economy and a capitalist commodity economy--this will help our economic and planning systems to thoroughly get rid of the influence of the idea of a natural economy, giving a push to reforms favorable to the development of commodity production and commodity exchange. On the other hand this will help to strengthen the planned nature of our socialist commodity economy, thus really guiding the development of the socialist commodity economy toward the path of planned development.

#### 4. To Recognize the Socialist Economy as a Planned Commodity Economy Provides a Theoretical Basis for Carrying Out Economic Reforms and Introducing the Guideline of Enlivening Things at Home and Opening up to the World

For a long time, our socialist economic activities proceeded under the economic system of decisionmaking powers being heavily concentrated in leading administrative organs, production and operations being organized on the basis of administrative zones and administrative levels, and administrative orders being mainly considered a regulating factor. The features of this system are: Monopolizing practically everything where plans are concerned; state-controlled purchase and marketing of grain, cotton, and so forth where circulation is concerned; unified control and distribution where labor is concerned; and

controlled receipts and payments where monetary matters are concerned. "Control" is the basic feature of this system. This system binds the entire national economy in a straitjacket killing the vitality of enterprises and the enthusiasm of laborers and inevitably retarding technological progress, the development of production, and the improvement of economic results.

But why was it impossible for so long to change such an irrational system? This was directly related to the long period during which we did not get rid of the theoretical influence of the natural economy and did not recognize the nature of the socialist economy as a planned commodity economy and related to our practice of pitting the planned economy diametrically against the commodity economy. Not recognizing that the socialist economy is a planned commodity economy, we could only organize the national economy according to administrative principles and use administrative orders to tightly control enterprises, thus bringing about the above defects. This is why in the past 30-plus years, every time we found a certain product in short supply and strengthened planning and control, this product became all the more controlled and in greater shortage. This also means that the more we stress strengthening so-called planned management with strict restrictions on the development of the commodity economy, the greater the difficulties which beset the planned economy. Every time we relax restrictions on the development of the commodity economy, the planned economy is able to develop more smoothly. Only by thoroughly overcoming the influence of the natural economy, affirming the commodity nature of the socialist economy, and clearly calling for energetic efforts in developing the socialist economy can we, under the guidance of national economic plans, make better use of the market mechanism, enliven the economy, and stimulate the vigorous development of social productivity.

Why is it necessary to recognize the socialist economy as a planned commodity economy and take it as the basis and prerequisite for enlivening the economy, and stimulating the rapid development of social productivity?

First, only by recognizing that the socialist economy has the attributes of a commodity economy and then consciously acting in accordance and applying the law of value can we actually switch our economic work onto the orbit centered on raising economic results.

Stress on economic results is a basic demand of socialist economic work. Marx pointed out that under the future socialist system, united producers will rationally readjust material conversion between themselves and nature using a minimum expenditure of labor to obtain maximum material wealth. But in the practice of our socialist construction, there often appears a low efficiency in economic activity, great waste, incompatibility between supply and demand, and a very slow increase in the volume of end products good enough for consumption despite quite a high rate of growth based on total output value. There are not many actual benefits for the people. There are even occasional proportionate imbalances in the national economy, causing a passive state marked by a seriously unsettled social economic life. In recent years, the party and government have



once and again stressed shifting our economic work into the orbit of improving economic results. But the results obtained have not been very remarkable. What is the reason? It should be said that the main problem lies in the management system of concentrated administration that has formed under the influence of the idea of the natural economy, seriously obstructing the development of commodity production and commodity exchange and running counter to the demands of the law of value.

Experience in socialist construction shows that in socialist economic activity, be it the improvement of microeconomic or macroeconomic results, we must recognize the commodity nature of the socialist economy and respect the role of the law of value.

So-called results refer chiefly to the results of the economic activities of socialist enterprises. The key to enterprises improving economic results lies in changing the state in which enterprises under the old system are only "beads on the abacus" in the hands of higher administrative organs, subject to "manipulation in this way and that" by higher-level administrative organs. We must turn these enterprises into relatively independent operating leading bodies with great vitality that combine great internal drive to improve economic results with great external pressure from market competition. All this can be realized only by treating enterprises as relatively independent commodity producers and operators and creating an appropriate environment enabling the law of value to produce a regulatory effect on production and exchange, and by lifting the blockade between areas and trades, thus breaking monopolies and encouraging competition.

To recognize the attributes of the commodity economy in the socialist economy, we must not only recognize collectively owned enterprises as independent commodity producers and operators, but recognize the enterprises owned by the whole people as also relatively independent commodity operators. They should also be economic entities operating independently on their own accounts with independent economic powers regarding personnel, financial, material handling, production, supply, sales, and other matters. Enterprises should be enabled to break away from the role of being subordinate to administrative organs, so that they can independently make decisions on production and exchange in line with social needs and become economic entities that operate independently and that combine responsibility, power, and profits under the guidance of plans.

By recognizing the attributes of the commodity economy in the socialist economy and thus recognizing the role of enterprises as relatively independent commodity operators, we can solve the problem of enterprises sharing equally in the state's "big rice pot," thus enabling enterprises economic results to be linked with workers' material interests and solving the problem of workers sharing equally in the enterprise's "big rice pot." This enables workers to be involved with enterprise operations and management out of concern for their own material benefits. Thus enterprises will have the internal drive to develop production and improve operations and management.

Recognition of the attributes of the commodity economy in the socialist economy suggests the necessity of socialist competition. Competition is a law peculiar to the commodity economy. In competition, enterprises strive to acquire market commodity economy. In competition, enterprises strive to acquire market information and find out what sells, so that their products can meet social needs. On the other hand, "the social labor required for the production of these products must be regarded as the law of nature with its regulating effect," or the law of value. This then calls for "forcibly paving one's own path."<sup>10</sup> This forces each enterprise to use every means to improve management and operations, lower costs, improve technology, develop new products, and enable their own individual labor consumption to fall under required social labor consumption as much as possible. Thus under the guidance of socialist state plans, certain market competition develops to form a kind of external pressure on enterprises, stimulating ceaseless efforts on the part of various enterprises, departments, and areas to get ahead.

Recognizing enterprises as relatively independent commodity producers and respecting the role of the law of value also helps stimulate each enterprise to better produce to meet social needs and aids the establishment of direct links between production and needs. Thus, under the guidance of plans, enterprises can strive to base themselves on the supply and demand market situation in concretely determining the volume of those products to be produced, so that their various products can suit the market and meet social needs. This provides the very basis for improving macroeconomic results.

Second, only by recognizing that the socialist economy has the attributes of a commodity economy can we smoothly realize various central policies on economic reform and perfect the socialist economic system.

In the past few years, on the basis of the great success of our rural economic reforms and a wealth of experience in experiments with urban economic reforms, we have adopted a series of measures for cities and introduced economic reforms in urban state industrial and commercial undertakings. The aim of these measures is to gradually establish an economic management system marked by "control in general and proper control in major respects and a loosened grip and flexibility in minor aspects." In other words, this means the realization of a transformation from the previous economic pattern of regulation--which involved organization based on administrative zones, administrative levels, and administrative principles and chiefly a reliance on administrative orders that had formed under the influence of the idea of the natural economy--into a socialist planned commodity economy. To raise consciousness in carrying out the relevant policy decisions of the central authorities, we must link the current partial reform measures with the general reform plan and recognize the content and significance of various concrete measures from the high plane of the targeted economic reform pattern. Otherwise, we will have a one-sided idea of these measures and even use hackneyed concepts as a basis for understanding and interpreting new slogans--concepts that have formed under the influence of traditional patterns. The result is that these new slogans and new measures are liable to change and become warped and distorted in practice. Thus not only would the envisioned target not be attained but new chaos would also arise.

For example, the slogan of "simplifying administration and delegating power" was originally proposed given recognition of enterprises as relatively independent commodity operators. Relatively independent commodity operators being what they are they should have decisionmaking power in operations, or the power to make microeconomic decisions based on market conditions and the state's relevant laws and regulations. If things are not interpreted this way, in carrying out the decision on "simplifying administration and delegating power," there are likely to appear two situations: One is that certain less important decisions are left to the discretion of the enterprise, while important micro decisions (decisions on everyday enterprise production and management) are strictly confined to administrative leadership organs. Given the checks and balances of various types of power and one link keeping tight rein on another, the important decisionmaking power on production and operation matters is not held by enterprises, and less important decisions cannot be left to those at lower levels. Another situation is the actual delegation of power to lower levels that is not accompanied by a display of skill in using various legal, administrative, and especially economic means on the basis of the needs of an established planned commodity economy to influence the market and to regulate the independent enterprises' economic activities and to guide them onto the path of planned and proportionate development. The result will be a potential source of chaos.

How to interpret the slogan of "doing away with separation between departments or organs and taking central cities as a basis for organizing economic networks" also provides a clear example. The "contradictions between departments or organs" that have long existed in our national economy arose from the previous management system of concentrated administration. Under such a system, since the whole society was regarded a big factory or a big company with state administrative organs directing all the economic activities of the whole society (including macroeconomic and microeconomic activities), the national economy could only be organized along the lines of an administrative system, placing up to 100,000 state enterprises in the whole society separately under state administrative departments and local leadership organs and leading to the formation of so-called "separate departments" and "separate organs." However, both "departments" and "organs" wanted to be independent systems, thereby forming so-called "complete systems." In social mass production, extensive production-supply-sales ties, intricate and complicated, exist between enterprises. With the economy organized on the basis of relations according to a hierarchy of authority, the ties between higher and lower levels must be counted on as the main factor. There is not only mutual separation but also even a mutual blockade. Thus, artificial obstacles to the establishment of extensive ties between enterprises are created. This also causes enterprise involvement with being "big and complete" and "small and complete." Thus, "contradictions between departments or organs" become increasingly serious. Given no change in such an existing management system with concentrated administration, the organization of the economy on the basis of administrative departments will sever the economic ties between enterprises belonging to different departments or organs. The organization of the economy according to areas will sever the economic ties between enterprises belonging to different areas. This makes it impossible to solve by any means the contradictions between departments or organs.

The organization of economic networks with cities as the core is suggested against the background of a totally different economic system. This is nothing but a socialist planned commodity economy. In a commodity economy, numerous commodity producers, establish economic ties between them through trade, forming a planned and unified market or an economic network embracing the whole society. The focus of such an economic network is the central city. The influence of the central city through the economic activities of its industrial and commercial enterprises and communications and transportation undertakings extends over vast areas to reach the whole country and even many areas throughout the whole world. In the period before the socialist society, central cities more or less formed spontaneously. In the socialist planned commodity economy, the state can consciously use the aforesaid role of central cities to coordinate, guide, and stimulate the economic development of areas affected by it.

At present some comrades' interpretation of the slogan of relying on cities as a basis for organizing economic networks is entirely incorrect. They hold that so-called reliance on central cities as a basis for organizing economic networks is just a matter of commodifying enterprises belonging to the central authorities, provinces, and autonomous regions to central cities' management and putting counties and cities in the economic zones under central cities, with cities continuing to follow hackneyed practices in enterprise management. Thus, enterprises are still "appendages" of city administrative organs or "beads on the abacus" at their command. In fact, such an interpretation runs counter to the original idea of building economic zones with certain cities as centers. If this is done, new departments or organs as separate units will form. It will be impossible to improve the economic ties between areas and guide the development of vast areas. Contradictions between central cities and neighboring fraternal areas will also be exacerbated, and the malpractices whereby various departments and organs all form separate units and are mutually blockaded, will also be aggravated.

Third, recognition of the attributes of the commodity economy in the socialist planned economy helps to greatly improve our national planning work, strengthen the state's planned guidance for the entire national economy, and achieve still greater macroeconomic results. This problem can be viewed from two angles:

The first angle is that in socialist economic activities, we must give play to the dominate role of "value as a deciding factor."<sup>11</sup> Distribution of social labor in various sectors in a planned and proportionate manner is a basic prerequisite for improving national economic planning work and improving macroeconomic results. Our historical experience in economic development tells us that every time there have been major proportionate imbalances in the national economy, the macroeconomic results of our national economy dropped considerably. For example, during the period of the "Great Leap Forward" and the period of the "Great Cultural Revolution," such was the case. To insure the proportionate development of the socialist economy and improve macroeconomic results, we must take not only the law of planned development of the

national economy but also the law of value as a basis for formulating national economic plans and link the two together. This is because the law of planned development calls for planned distribution of funds, materials, and labor in a proportionate manner, and the commodity "law of value determines how much of all the labor time at its disposal society can use to produce a particular commodity."<sup>12</sup> From this it can be seen that the two do not oppose and exclude each other but share a common basis and can be united. Given the law of planning requiring people to consciously arrange social production in a proportionate manner, the law of value, apart from calling for people's rational distribution of social labor, also requires the realization of the proportionate development of social production through economic mechanisms. For example, those producers of products in short supply should be rewarded with more benefits and those producers of products in full or excessive supply should be rewarded with less. Thus, enterprises are guided to consciously regulate their own production to meet social needs. Only by properly linking the law of planned development and the law of value, can we bring about the planned and proportionate development of the national economy, thus basically guaranteeing a continuous improvement in macroeconomic results.

The second angle is that in the past, our national economic plans failed to grasp major aspects and to effectively regulate the activities of several hundred thousand enterprises in the entire national economy. An important factor behind this was sole reliance on administrative orders and mandatory targets as a regulatory factor. Enterprise economic activities are varied. In fact, planning organs cannot possibly use mandatory targets to control all of them. The system of mandatory targets inevitably leaves many "voids." Within such a scope, enterprises with independent economic interests will make their own choices or decisions based on their own interests. Because planning organs established along the lines of concentrated administration are also not good at using regulatory means suitable for the commodity economy, chiefly tax collection, interest rates, wages, bonus payments, prices, subsidies, and other economic levers that regulate the relations between enterprises and between enterprises and society and to control enterprise production and management matters within the scope imposed by plans and guides them onto the path suited for social needs, the result is that major aspects are not taken care of, with incompatibility between supply and demand and a frequent proportionate imbalance. Minor aspects, on the other hand, are rigidly controlled, so that the whole economy shows a lack of vitality.

Given a planned commodity economy, the state possesses great economic strength and supreme decisionmaking powers. In exercising planned leadership over the whole national economy, it is entirely capable of using not only legislative and executive means but also various economic levers to establish a powerful regulatory system combining administrative and economic means to regulate the various economic activities of the entire national economy and to realize the vigorous and planned development of the national economy.

To this end, our planning organs must effect a major switchover ideologically and smash the hackneyed concept that only an economy regulated by mandatory plans is a planned economy. We should gradually switch the focus of our planning work from working out mandatory plans onto formulating strategic

principles, economic policies, and regulatory measures for economic and social development. We should make great efforts to learn how to apply various economic policies and economic levers in regulating the whole national economy and to ensure the realization of our planned targets and the fulfillment of our planned tasks. This should be the main content of our reform in the planning management system from now on. As far as certain mandatory targets are concerned, we must also follow such a plan. Only in this way can we insure their realization. Otherwise our efforts will be wasted. The prerequisite for achieving all this calls for recognizing socialism as a planned commodity economy.

Fourth, recognition of the attributes of commodities in the socialist economy provides a theoretical basis for our realizing the guideline of opening up to the world. Meanwhile, it is also an ideal prerequisite for guaranteeing our socialist enterprises' being able to realize this guideline and engage in international competition.

Whether a society or a state should develop economic and technical exchanges with foreign countries and make use of foreign markets and foreign capital, resources, and technology--this is determined by the degree of development of its commodity economy and the state of productivity. Given a low level of productivity in the time before capitalism, the commodity economy was quite underdeveloped, with the natural economy occupying a predominant position. Given such a situation, international economic and technical exchanges were often very limited. In capitalist society, the commodity economy develops greatly. This naturally brings with it the great development of international economic and technical exchanges. Touching on the economic origins of the bourgeois exploration of the world market in "The Communist Manifesto," Marx and Engels pointed out: "The need to continuously increase the sales of products sends the bourgeoisie running to all parts of the world."<sup>13</sup> The aim or nature of a socialist state's effort in developing a commodity economy and opening up a world market is fundamentally different from that of the capitalist state effort. But the development of a socialist commodity economy will naturally eliminate the isolated and inaccessible nature of the national economy based on the natural economy. It calls for reaching out to the world to introduce advanced technology and management methods from developed states and to draw on foreign capital. It also calls for breaking into the world market and consciously exploiting the world market to get the advantage therefrom of the international division of labor or exchange of international commodities. This historical trend is required for the development of objective things. For such a developing socialist state as ours, this is a matter of particular importance. Our guideline of opening up to the world is formulated on the basis of Marxist theory and the objective demands of the development of our socialist commodity economy.

We must note that the correct guideline of opening up to the world cannot be easily achieved. In order to achieve this correct guideline: 1) We must put in large amounts of capital, first of all, in construction of fundamental facilities involving "construction in seven respects and site leveling,"

and build a base for opening up the world. 2) We must have an investment environment and supply and sales conditions that attract foreign businessmen and foreign capital. 3) Our enterprises must have the capacity for digesting and absorbing foreign capital and foreign technology. 4) The products produced by our enterprises with capital and technology introduced from foreign countries must have competitive power on the international market. Under the old management system with concentrated administration, enterprises incurred high costs had poor efficiency, and their capacity for capital accumulation was very weak. Besides, technical progress and the pace of upgrading were very slow. Meanwhile, administrative organs overlapped, with people passing the buck in doing things. Efficiency was very low. Many problems existed in matters of signing and enforcing contracts. All these stand in the way of the realization of the policy of opening up to the world and affect its results. Therefore, we must effect a fundamental reform of such a ponderous, rigid, and lackluster system in order to create conditions for implementing the policies of opening up to the world. All this, just as pointed out above, is based on the prerequisite recognition of the socialist economy as a planned commodity economy.

In order to meet the new situation of opening up to the world, for our comrades who are engaged in economic work, there is a task of learning to do business and to apply the principle of the commodity economy in dealing with foreign capital and of utilizing foreign capital under the conditions of mutual benefit. Our comrades who are engaged in economic work, should not only have a firm proletarian stand but also thoroughly understand the laws governing economic activities in the international market and have international financial knowledge and knowledge about international laws. During the past several decades, because of copying what the Soviet Union had done and because of the influence of "leftist" ideology, the scope of our economics became narrower and narrower. In the socialist part of our political economy, we often only expounded on some abstract political principles and rarely provided people with knowledge of the actual operation of the socialist economy and we practically failed to even touch the question of how to run our enterprises in our market environments and of how to regulate our economy. From now on, on the basis of summing up our experiences in implementing the policies of "opening up to the world, and enlivening our economy at home" in the past few years, we should vigorously develop Marxist economics in order to arm our comrades' minds. In the development of bourgeois economics since the end of last century, there have been many expositions on the contemporary capitalist economy. Generally speaking, contemporary bourgeois economics is written in defense of the capitalist system and thus, it is vulgar and goes against science. However, it reflects some common laws of commodity economy which cannot be indiscriminately negated. Whether for the sake of understanding the capitalist economy or for the sake of developing our socialist economics, it is imperative for us to adopt a serious attitude toward bourgeois economic theories and to utilize with discriminate its useful factors in analyzing the socialist commodity economy.

In sum, to recognize the socialist economy as a planned commodity economy and respect the role of the law of value in the state's macroeconomic policy decisions and in enterprise microeconomic activities will not only stimulate

enterprises to vie with each other in improving economic results but also insure the proportionate and harmonious development of the national economy and make us avoid capitalist economic crises and anarchy. Thus, our economic work is enabled to more thoroughly get rid of various "leftist" influences and insure the more vigorous development of our socialist national economy.

#### FOOTNOTES

1. "Selected Works of Marx and Engels," Vol 3, p 10.
2. Lenin: "Seventh Party Congress of Moscow Province," "Collected Works of Lenin," Vol 33, p 73.
3. Stalin: "Economic Problems of Socialism in the USSR," "Selected Writings of Stalin," p 613.
4. "Development of Capitalism in Russia," "Collected Works of Lenin," Vol 3, p 17 of the 1984 version of the People's Publishing House. All the passages cited from "Collected Works of Lenin" in later context refer to the same version.
5. Lenin: "Collected Works: On Economic Romanticism," Vol 2, p 196.
6. Deng Xiaoping: "Selected Writing: On the Question Relating to Rural Policies," p 275.
7. Engels: "Selected Works of Marx and Engels: Anti-Duhring" Vol 3, p 186.
8. Engels: "Preface to Volume 3 of 'Das Kapital,'" "Das Kapital" Vol 3, p 17 of 1975 People's Publishing House version. This will be the same case in later context.
9. Of course, given the existence of many economic forms, including the introduction of some foreign capital, in the actual economic life of our socialist society, there is still the participation of capitalists in the non-socialist commodity economy. But the commodity economy which has the nature of state capitalism is only a supplement to the socialist commodity economy. It occupies a small part of the total national economy. The capitalists involved in such commodity operations act under the control and supervision of the socialist state.
10. Marx: "Das Kapital," Vol 1, p 92.
11. Marx: "Das Kapital," Vol 3, p 963.
12. Marx: "Das Kapital," Vol 1, p 394.
13. Marx and Engels: "Selected Works: The Communist Manifesto," Vol 1, p 154.



NATIONAL POLICY AND ISSUES

JINGJI YANJIU STRESSES VITALIZING LARGE ENTERPRISES

HK040727 Beijing JINGJI YANJIU in Chinese No 12, 20 Dec 84 pp 37-40

[Article by Zhou Shulian [0719 0647 5571]: "Large Enterprises Should Also Be Vitalized"]

[Text] Vitalizing Large Enterprises Is a Task of Top Priority

In the reform of our country's economic structure which has been carried out over the past few years, the large state-run socialist enterprises, have to a certain extent, been given decisionmaking rights in business and management and their enthusiasm and initiative have been strengthened. However, they are still bound quite tightly on the whole and have not been given appropriate independence and adequate decisionmaking powers. As a result, many difficulties and problems exist in production and management which hinder the enterprises from giving full play to their superiority and playing their role of being the backbone.

The main difficulties and problems existing in large enterprises at present are: 1) Outdated equipment, backward technology; 2) the production tasks of many large enterprises are assigned as mandatory planning, whereas energy and raw materials are insufficiently guaranteed; 3) being unable to make use of the market mechanism; 4) too many petty rules which reduce efficiency of work; 5) shortage of capital and in particular necessary capital for technological reform; 6) the wages and bonuses of workers and staff members are unable to hook up with the economic results of the enterprises. In addition, the large enterprises face great constraints in exporting products, importing raw materials, technical cooperation with foreigners, importing capital, exchanging personnel, and so on, and there is also limited information of foreign markets and foreign technology.

There are both internal and external reasons accounting for the above-mentioned problems. Thus it is necessary to strive to solve these problems from various aspects. What merits our attention is the influence of the flaws of the economic structure on large enterprises. In the traditional economic structure, there is excessive and tight control over the enterprises, especially the large enterprises, thus, making them lose the necessary decision-making rights in management and subsequently they fail to become relatively

independent economic bodies. Therefore, in order to solve the above-mentioned problems, it is demanded that we further reform the economic structure and vitalize all enterprises including the large enterprises.

The large enterprises occupy a decisive position in the national economy and at the same time, enjoy superiority in many areas. Finding a solution to their problems and difficulties will definitely speed up the process of technological renovation of the whole national economy and modernization of the national economy and bring about the production of more products which are cheap and needed by the society, bringing more taxes and profits to the state financial revenues. Vitalizing the large enterprises is related to the important question of whether or not we can realize the strategic goals specified at the 12th Party Congress.

As a result of necessary measures adopted by the state in the reform of the economic structure, medium and small enterprises are now being vitalized, but control over the large enterprises is still tight overall. Under such circumstances, the large enterprises are in a very disadvantageous competitive positions. For instance, serious phenomena are found in many places where the medium and small enterprises take the production and technological mainstay of the large enterprise away with higher wages and better fringe benefits. The Shanghai No 7 Cotton Mill has cultivated 400 technical workers, however 200 workers left for other enterprises since the income of workers in this mill was lower than that in the small enterprises. All 20 die makers of the Shanghai Electric Motor Plant resolutely requested to resign for the reason that income there was lower than in the small enterprises and the technical cadre of this plant, who had been sent to study in the United States had also resigned for the same reason. For the purpose of promoting cooperation projects with West Germany, the Shenyang No 1 Machine Tool Plant has cultivated a group of computer software technicians but due to the fact that housing problems inside the plant could not be solved, many of them wanted to transfer. Competition among large, medium, and small enterprises is bound to take place and the fact that some medium and small enterprises overtake the large enterprises during normal competition will urge the large enterprises to improve technology and management. However, if the large enterprises are at a disadvantage in the competition due to certain factors of the system, giving rise to the phenomena of "the ants being able to eat the bones" and the "smaller fish eat up the big ones," it will be detrimental to the wholesome development of the national economy. In light of this, we can see that vitalizing the enterprises is not only an essential but also an urgent task.

In the course of accelerating the reform of the urban economic structure, we still enjoy favorable conditions to gradually solve the difficulties and problems found in the large enterprises at present and to vitalize the enterprises.

#### Discussion on Several Different Opinions

As is the case in medium and small enterprises, the prerequisite for vitalizing the large enterprises is to adhere to the socialist planned economy but not to allow them to develop blindly.

For a long time in the past, we lacked scientific knowledge of the position and role of socialist enterprises. The popular view was to treat the whole society as a big plant and the enterprises as workshops of the big plant. Thus, the relative independence of the enterprises has been negated and the vitality of the enterprises neglected. Over the past few years and by summing up experiences and conducting scientific research, more and more comrades have realized that even in a socialist economy of all-people's ownership, the enterprises still possess relative independence and the necessary decisionmaking rights. The national economy will be able to rapidly develop as long as the enterprises are vitalized.

Nevertheless, we still cannot say that all of us have sufficient understanding of the position and role of socialist enterprises, in particular, we cannot say that there is a consensus that large enterprises should be vitalized.

There is one opinion which holds that in conducting economic work we must exercise effective control over the major aspects and allow flexibility in the minor ones, and that since large enterprises belong to the major aspects and small enterprises belong to minor ones, small enterprises can be vitalized whereas there must be tight control over large enterprises. This is a major reason to oppose vitalizing the large enterprises.

While expounding on the question of "seriously and in a planned way reform the flaws of 'eating out of the big pot of rice' which are commonly found in the urban economy and better mobilize the enthusiasm of the staff members and workers" in the government work report submitted to the Second Session of the Sixth National People's Congress, Comrade Zhao Ziyang put forth the principle of "exercising effective control over the major aspects and allowing flexibility in the minor ones." This is an important principle of our country's economic work and is also an important guiding ideology of economic reform. However, some people interpret "major aspects" as "large enterprises" and "minor aspects" as "small enterprises," deducing that large enterprises should not be vitalized. This is worth discussion. How should we interpret the principle of "exercising effective control over the major aspects and allowing flexibility in the minor ones?" The so-called major aspects mean important issues which concern the overall national economy. For instance, strategies for economic and social development, speed of development and the structure of economy, important proportions between agriculture, heavy, and light industries and between accumulation and consumption, the balance of supply and demand in the whole society, the balance of financial, material, and human (particularly the professional personnel) resources, distribution of the productive forces, principles and scale of foreign trade and international technical and economic exchanges, the extent of growth of fixed assets investment and the consumption funds, the general standard of prices and money supply, development of science and technology and cultivation of talented people and so on are considered as major aspects and should be effectively controlled. The so-called minor aspects include, first of all, microeconomic activities of the enterprises which then include supply, production, and marketing activities and other management activities which should

be managed by the enterprises themselves. This includes medium and small enterprises and the large enterprises as well. As far as they are concerned, flexibility should be allowed, in other words, allowing them to handle things which should be handled by themselves and gradually not interfering with their normal economic activities. This interpretation of "exercising effective control over the major aspects and allowing flexibility in the minor ones" may not be comprehensive enough, and how to comprehensively interpret this principle is a question which needs further probing. However, we must affirm one point that this principle seeks to vitalize all enterprises including the large enterprises.

Historical experiences have proved that only by vitalizing the large, medium and small enterprises could we really perform the task of "exercising effective control over the major aspects." If excessive control is exercised in the large enterprises thereby making them lose their vitality, it will be hard to enliven the whole national economy, thus, how can we say that there is effective control over the major aspects? In the past, owing to excessive and over-rigid state control over the enterprises, the enterprises were not vitalized at all, and serious imbalances of the major proportions of the national economy was frequently found. This fully proves that we will be unable to exercise effective control over the major aspects if we fail to vitalize the enterprises.

There is still another view which holds that it is necessary to implement mandatory planning in the large backbone enterprises and that if these enterprises are vitalized, it will be difficult to implement mandatory planning and the planned economy will be undermined. This is another important reason to disagree with vitalizing the large enterprises.

Due to the prominent position of the large enterprises, production of some of their products which are related to the livelihood of the people are assigned under certain conditions as mandatory plans which must be achieved by the enterprises. Therefore, as far as the production activities of the state mandatory plans are concerned, the decisionmaking rights of the enterprises are restrained. However, can we deny the necessity of vitalizing the large backbone enterprises by basing on the fact that these enterprises undertake tasks as mandatory planning? In my opinion, the answer is no. It is because while implementing the planned economy (including implementing mandatory plans), we are working in accordance with the socialist economic laws, and vitalizing the enterprises, including the large enterprises, is also a demand of the socialist economic laws. In addition, the exercise of mandatory plans and vitalizing large enterprises is not always contradictory. There are special reasons why the mandatory plans have become constraints to certain large enterprises at present. For instance, first, the extent of mandatory planning is too wide and mandatory plans are indiscriminately used, control is too rigid, thus not leaving enough margin for the enterprises. Second, the prices of certain products are very irrational. The allocated prices of certain industrial products in accordance with state centralized distribution are much lower than the market prices, thus the enterprises usually cannot obtain reasonable profits or even suffer losses in producing products under the mandatory plans. Third,

while mandatory plans are assigned to the enterprises, energy and raw materials supplies are not guaranteed. The enterprises usually have to purchase energy and raw materials at a high cost from the market thus influencing their economic results. Therefore, it is an undeniable fact that there is a long-term contradiction between implementation of mandatory planning and vitalizing large enterprises. However, this contradiction is not a deadlock. When this contradiction is solved and simultaneously when necessary measures are adopted to vitalize the large enterprises, co-existence of the implementation of mandatory plans and vitalizing large enterprises will be possible.

We have mentioned that at present, many small enterprises have been vitalized while the large ones still remain untouched. One of the important reasons for this is that the large enterprises are undertaking tasks under mandatory planning. Thus, under the circumstances of implementing mandatory plans in the large enterprises, how to vitalize them is a question that urgently awaits solution. In respect of the above-mentioned reasons and for the sake of easing and ultimately overcoming the constraints of mandatory planning on the enterprises at present, we must adopt certain essential measures. First, it is necessary to reduce the extent of mandatory planning, enlarge the extent of market regulation so that the large enterprises can participate in the market activities and that the large enterprises which possess favorable conditions can participate in international markets. Second, it is necessary to gradually readjust prices and achieve rationalization of the price system so that the enterprises can obtain reasonable profits when fulfilling tasks under mandatory plans under normal circumstances. Third, as far as the tasks of mandatory planning are concerned, the state must guarantee the necessary supplies of energy, raw materials, and technological equipment. Considering that it takes some time to solve the contradiction between mandatory planning and vitalizing large enterprises, it is necessary to adopt certain flexible measures at present, for instance, implementing the system of contracting production which increases progressively and allowing the enterprises to sell part of the products produced in excess of quota in accordance with the different conditions of the large enterprises. The State Council has already published "the standing regulations for further expanding the decision-making rights of the state-run industrial enterprises" which has given the enterprises their own rights in handling production planning, products' market prices, prices, selection of materials, capital utilization, handling of capital and properties, equipment for organization, personnel, and labor management, wages and bonuses, and joint business. This regulation should also be implemented in the large enterprises in order to create the necessary and favorable conditions for vitalizing the large enterprises.

There is a different view which holds that productivity is developed in the large enterprises where the material and technical basis is strong, and that human factors do not play a decisive role but rather material factors play a decisive role in production and the mobilization of enthusiasm is not as important as in the small enterprises; thus, the decisionmaking rights can be slightly reduced. This is also an important reason for disagreeing with vitalizing large enterprises.

This view is also incorrect. It is true that the large enterprises have a relatively strong material and technical basis, but we cannot say that human factors do not play a decisive role in their production and that materials factors play a decisive role. All kinds of materials and technical equipment must be handled and operated by people, even computers and robots are manufactured by human beings and their work is controlled, programmed, and improved by human minds. In a certain sense, the higher the development of the productive forces in the enterprises and the more advanced the technology, the more decisionmaking rights and initiative will be needed. From the process of making assumptions to popular application in production, each scientific invention needs the exercise of initiative of various personnel in each cardinal link. The development and strengthening of the large enterprises which are built on a relatively developed scientific and technological basis, rely on the scientific and technological advances and at the same time enjoy the favorable condition of pushing forward science and technology. Thus, it is essential and possible for the large enterprises to give full play to the superiority of science and technology, but in doing so, it is necessary to vitalize them so that they will have the dynamics and power to develop science and technology.

Some of our large enterprises had a more advanced technological foundation during the period when they were established but are quite backward now, and some of them even had to suspend production. These are not single incidents but are common phenomena. In fact, the general enterprises should incessantly improve their own technology and incessantly renew equipment on such a basis. Why is it that so many of our enterprises have failed to do so? This is worth our serious consideration. One important reason for their being found in the economic structure is that the enterprises lack vitality due to the constraints of the traditional economic structure. Specifically speaking, they lack: 1) the dynamics to improve technology; 2) the right to improve technology; 3) the responsibility for improving technology; and 4) the pressure to improve technology. Presently, our country's enterprises are generally confronted with the task of technological renovation, and this task is most pressing in the large enterprises. In order to implement the principle of taking technological renovation in the enterprises and reconstruction and expansion as the major tasks during the "Seventh Five-Year Plan" period, we must closely link technological reform with the economic structure and vitalize the enterprises so as to enable them to possess the dynamics, rights, responsibility, and pressure to carry out technological renovation. If we do not proceed in such a way but allow the enterprises to passively promote technological renovation with state funds as was done in the past, the enterprises will remain unvitalized. Then, even if certain enterprises possess advanced technological equipment now, the past mistakes of backward technology and outdated equipment will repeat themselves several years later. We must absolutely not proceed on this old path but should work out a new road of technological renovation by vitalizing the enterprises through the reform of the economic structure.

CSO: 4006/349

PROVINCIAL AFFAIRS

HOUSEHOLD-RUN INDUSTRY FLOURISHES IN ZHEJIANG

OW290958 Beijing XINHUA in English 0904 GMT 29 Jan 85

[Text] Hangzhou, 29 Jan (XINHUA)--Household-run industry is being encouraged in the countryside of the Zhejiang Province as a way to absorb surplus labor power, which is increasing under the initiative-based responsibility system.

In all, 250,000 workshops and factories run by individual rural households or jointly by peasant families have sprung up in the province since the system was instituted in 1979, according to the provincial agricultural department. More than 600,000 peasants, or 3.5 percent of Zhejiang's rural workforce, now work in these workshops and factories.

In the meantime, each peasant also does farming on a plot of farmland contracted from the collective.

Until recently the surplus labor force in 9 counties administered by the city of Wenzhou amounted to 800,000 people. Now half of them work in household-run workshops and factories, and the remainder are engaged in commerce, service trades and transport.

Zhejiang is one of the most densely-populated and economically developed areas in China.

Household-run industry produced 1.5 billion yuan worth of goods last year-- 11 percent of the province's rural industrial output value. Profits amounted to 70 million yuan, a big increase over 1983. Many peasants have become better off from working in such workshops and factories. For example, all 636 households in a township in Yongjia County have started workshops, and 80 percent of the households earned more than 10,000 yuan apiece in 1984.

Household-run workshops and factories usually produce goods which large factories in cities do not manufacture because of low profit rates. These include hardware, plastics, ornamental articles, knitwear, toys, and arts and crafts, which are supplied to most parts of China.

A workshop run by Zhao Shouqin, 24, in Wenling County, processed 40,000 air-blower parts last year, which were often unavailable previously on the local market.

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PROVINCIAL AFFAIRS

LIAONING TOWNSHIPS INCREASE OUTPUT VALUE

OW040902 Beijing XINHUA in English 0846 GMT 4 Feb 85

[Text] Shenyang, 4 Feb (XINHUA)--Agricultural and industrial output in a quarter of the townships in Liaoning Province has doubled over the past 5 years, the provincial authorities reported today.

In terms of larger areas, 1 city and 10 counties, almost one-fifth of the total in this northeast China province have also doubled their 1980 agricultural and industrial output value, officials said.

Quadrupling the 1980 industrial and agricultural production by the end of the century is China's ambitious goal of developing its national economy and achieving modernization, according to the government. In agriculture alone, the total value of output in Liaoning came to 18 billion yuan last year, 15 percent more than in 1983. The average per-capita income of peasants exceeded 470 yuan, 10 percent more than in 1983, the officials said.

They said the prosperous townships had made the best efforts to utilize local advantages to develop rural industrial enterprises and services trades. The best examples were 42 villages with an output value last year topping 10 million yuan, and an average income of 800 yuan per person. In these villages, 70 percent of revenue came from rural industries and sideline occupations.

The most successful by far was Ningguan village near Shenyang, the provincial capital. Its total annual output value last year reached 20 million yuan, almost double the 1983 figure, and 90 percent of it came from industry and side-line operations.

CSO: 4020/108



## ECONOMIC DEVELOPMENT ZONES

### UPGRADING OLD INDUSTRIES IDENTIFIED AS SHANGHAI'S CHALLENGE

Beijing LIAOWANG /OUTLOOK/ in Chinese No 44, 29 Oct 84 pp 22-23

/Article by Shen Shiwei /3088 0013 4885/: "A Brand New Strategy Target-- Experts, Scholars and People of Economic Circles Discuss Countermeasures for Shanghai's Economic Development"/

/Text/ Capsule Summary: As an old industrial base, Shanghai is losing the certain advantages it usually has. In the face of the new challenge and test, Shanghai has put forth a strategic target of development which is compatible with the national conditions and more suitable to the realities in Shanghai. Scholars, experts and people in economic circles have held that the hope of Shanghai's traditional industry lies in the "grafting" and "injection" of new technology into traditional industry; that Shanghai's historic responsibility is to further readjust the industrial structure, speed up, expand and develop the burgeoning knowledge and technical-intensive industries and give play to Shanghai's role as the "tap" of S&T a step further; and that an urgent task in the strategic target of development of Shanghai is to vigorously develop the tertiary industry, including commerce, finance, communications and transport and information, counseling and lawyers to serve the whole country so as to bring about the strategic shift of the city functions.

Shanghai, this eye-catching old industrial base for the millions, is facing sharper and sharper challenges and the situation is becoming grimmer. Leading persons and people in economic circles have clearly seen that first, the fast-rising revolution of the world's new technology has a direct impact on Shanghai, the commercial city of strategic importance on the western shore of the Pacific. Second, the vigorous and rapid rise of the economic in fraternal provinces and cities at home since the party's Third Plenum, Shanghai's losing of certain traditional advantages and its encountering of a number of strong opponents in competition have made Shanghai's "leading position" more unstable. Third, the day when Shanghai could rely on cheap energy and raw materials and develop processing industries have gone forever and the contradictions caused by short supply of energy and raw materials are sharpening with each passing day. Light industrial and textile products which Shanghai used to put out can now also be

produced in other places. Some of the name-brand products which Shanghai used to claim first in the line in the past have been overtaken or even replaced by other places.

In the face of such a rigorous challenge and test, what strategy should Shanghai follow in economic and social development? Many experts, scholars and people in economic circles who are concerned about the development of this old base have been paying attention all along to the trends of development of the economic situation in the international and domestic scene as well as in Shanghai and compared notes and studied countermeasures, thus the targets of Shanghai's strategic development have become more well-defined and specific after numerous discussions and repeated explorations. The targets are: transforming the traditional industries with new technology, expanding the knowledge and technical-intensive-raising industries, vigorously developing the tertiary industry to serve the whole country and building Shanghai into a socialist modernized international city of economic prosperity with advanced S&T, developed culture, good transport facilities and intelligent information.

Shanghai was the birthplace of China's modern industry where many trades have a history of several scores of years and even over 100 years. For a long time, it has shaped a complete set of traditional technical means and technological process in producing large quantities of excellent traditional products. These traditional industries have been important pillars for Shanghai in maintaining the growth rate and ensuring financial revenue. However, in recent years, Shanghai's traditional industry has shown signs of decline.

In these circumstances, should Shanghai's traditional industry be allowed to wither or given an "injection" of new vitality? The practical experience of success of some enterprises shows that so long as we are adept at applying the achievements of the world's new technological revolution, "grafting" new technology in the traditional industry and arm and renovating the traditional industry with new technology, we will be able to rejuvenate the traditional industry and radiate the vigor of youth. For instance, the Shanghai textile industry has a long history of occupying a decisive position in Shanghai's financial revenue. However, owing to outmoded equipment and technological aging, both output value and profits have taken a serious turn for the worse in recent years. To rectify this state of affairs, the Shanghai Institute of Textile Science has, for the purpose of raising economic results, "grafted" new technology in old equipment and also "grafted" electronic computers in looms and implemented strict monitoring and scientific management, thereby greatly improving the quality of products and productivity. After this new technology achieved success in the No 6 Weaving Plant's shuttleless looms, it was again popularized with the shuttle looms and color-weaving looms achieving gratifying economic results. Furthermore, they have also "injected" new technology into the old technological process, thereby overcoming the troubles in the technological process caused by cotton-net unevenness and excessive impurities and sending more products into the international market. By "grafting" electronic computers in products, the Shanghai instrument and meter trade has succeeded in developing more than 20 kinds of computerized products to the welcome of consumers when they were introduced into the market.

This successful experience has broadened people's horizons: "Grafting" new technology in the traditional industry is the only way of developing Shanghai's traditional industry and is also where the hope of traditional industry lies; new technology, on the other hand, can also be developed by relying on the traditional industry, thus bringing out the best in each other. This will bring about a new situation in Shanghai.

Of course, the emergence of the new situation will still have to depend on the further readjustment of Shanghai's industrial structure. Shanghai's industrial structure still remains very irrational at present and the burgeoning industries account for a very low proportion in the entire economic structure. According to the 1982 statistics, the output value of the electronics industry in the whole city came to 2.08 billion yuan or only 4.5 percent of the total industrial output value of the entire city. Other new technologies such as lasers, fiber optics, new-type materials and biological engineering are basically in R&D stages, only certain individual projects have the industrial productive capabilities. Shanghai's intellectual level is quite high, its S&T forces are solid and educational undertakings are developed. The city has more than 600 scientific research organizations, 51 institute of higher learning and 380,000 S&T personnel. Shanghai has every qualification to rank among the first in the country in developing the burgeoning industries, provided the advantages of qualified personnel and intellectual power are put into full play. Recently, the Shanghai Municipal Government decided to develop the electronics industry with priority as a "pilot industry" and started to set up seven new industries--microelectronics, new-type materials, biological engineering, oceanographic engineering, optical fibre communications, laser and robots. An army of scientific personnel is being organized from all directions to devote themselves to the R&D for these seven new industries. The prospects of developing new industries in Shanghai are undoubtedly magnificent.

Some scholars pointed out that since the core of the four modernizations is the modernization of S&T and that the S&T level to a great extent indicates the technical equipment and the technological level in the national economy, Shanghai must not only devote itself to developing the new industries and renovating the traditional industry, but must also produce advanced technical equipment needed in the country's four modernizations. In other words, arming China's national economic departments with modernized equipment is Shanghai's bounden responsibility during the new historic period.

Shanghai's strategic position has decided that it should become an S&T development center; a center for importing, digesting, transplanting, developing and shifting new technologies to the hinterland; and a center to provide new skills, new technology, new materials and key equipment and parts for the whole country and serve the transformation of the technical structure of the national economy and support the economic development in the hinterland.

Another strategic task for Shanghai's economic development is to give full play to the comprehensive functions of a large city and vigorously develop the tertiary industry in the service of the whole country. Shanghai was once the largest financial and trade center in the country and the Far East in the 1930's. But after liberation, as Shanghai laid particular stress on developing

heavy industry, other economic functions of the city dwindled gradually and even declined, thus reducing the position and proportion of commerce, finance and communications and postal services in economic development. According to statistics by departments concerned, the number of people employed in the tertiary industry in Shanghai only accounted for 23.9 percent of the people employed in the whole city, the output value came to only 21.9 percent of the GNP and the investment in fixed assets also only constituted 22.8 percent of that in the whole city. The withering of the tertiary industry has not only restricted Shanghai from developing its role as a key city but also caused hardship and inconvenience to the people. Such state of affairs as having trouble finding a place to stay and a place to have a dress made, having trouble to ride streetcars and see a doctor and having trouble to find a place to eat has continued to appear.

People in economic circles held that while trying to fully equip its industrial categories step by step, Shanghai has cast away its two "gold medallions" as a financial center and a trade center thus making the city's functions fragmentary. That was a very unwise move. Of course, the decline of the city's comprehensive functions and the neglect of the tertiary industry were chiefly brought about by the evil of the "Leftist" guiding ideology and the economic management system. For a long time, we have placed emphasis on production and construction and belittled consumption and services and, deviating from the needs of developing the new situation, unilaterally stressed turning a consumption city into a production city thus turning both large and small cities in our country into "large and all-embracing" and "small but all-embracing" industrial "bases." As far as the whole situation goes, this way has on the contrary weakened the role of certain important industrial bases and key cities. At the same time, fettered by certain erroneous traditional concepts, the tertiary industry has been looked upon as welfare and charities; knowledge and information have not been treated as important resources and wealth and the work of rendering services has not been considered productive labor. All this, like an "iron drum," has shackled the development of the tertiary industry. Therefore, only by further eliminating the influence of "Leftist" thinking and systematically reforming the economic management structure can we make the tertiary industry flourish.

Energetic development of the tertiary industry has become an urgent task now facing the leading departments at all levels in Shanghai. Shanghai is currently taking measures to develop finance, S&T, information, counseling, personnel training, lawyers and other trades in an effort to bring about a strategic shift of city functions. People will see that Shanghai will emerge on the shore of the East China sea in a brandnew appearance as an economic center with more complete functions.

12662

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ECONOMIC MANAGEMENT

PROBLEMS WITH MANAGEMENT RESPONSIBILITY SYSTEM DISCUSSED

Beijing SHANGYE KUALJI [BUSINESS ACCOUNTING] in Chinese No 9, 10 Sep 84 pp 4-5

[Article by Wan Yucheng [5502 6657 2052] of the Jiangsu Province's Zhenjiang Supply and Marketing Cooperative: "A Discussion of a Few Problems in Implementing the Management Responsibility System"]

[Text] The management responsibility system implemented by the supply and marketing cooperatives is an important step in systematic restructuring and enterprise consolidation and under the new circumstances is a fundamental management system for competently running supply and marketing cooperatives. Through combining responsibility, authority and benefits, it is extremely significant that we correctly handle the economic benefits for the state, the enterprise and the individual and thereby strengthen the initiative and flexibility of enterprises, strengthen the enthusiasm and sense of responsibility of the workers, raise the quality of enterprises, improve economic results, gradually transform supply and marketing cooperatives into comprehensive rural service centers and cause them to become cooperative businesses of the collective system of ownership that are welcomed by the broad masses of peasants. This article is a discussion of a few problems and offers a few thoughts on the promotion of the management responsibility system by Zhenjiang Prefecture, and I put it forth for discussion.

First, concerning the scope of carrying out the management responsibility system, some people say that retail enterprises can run this system and wholesale enterprises are unable to run it (or can only run it a little). Because wholesale enterprises fill their targets either well or not so well, they are subject to a considerable number of influences, and the running of this system is not controlled by the ability of the enterprise itself. There are also people who say that it is quite easy to double targets with large wholesale purchases and sales and that this is difficult to control, etc. In a word, if the contracted targets of wholesale enterprises are not set well, then enterprises will be unable to implement the management responsibility system. I feel that these two viewpoints are both worth studying. The management responsibility system carried out by the enterprises, as was pointed out by Premier Zhao Ziyang in the

"Government Work Report" at the Second Session of the Sixth National People's Congress, "should strictly fix the tasks that a worker must complete, consistently give a reward commensurate to the results of the labor, closely combine the amount of the workers' income, the competence of the enterprise management and the size of individual contributions and break through egalitarianism in distribution." This is so that we can achieve a situation whereby "enterprises do not eat from the 'big common pot' of the state and so that the workers do not eat from the 'big common pot' of the enterprises." Thus, retail enterprises must implement the management system of responsibility and wholesale enterprises cannot be an exception.

Even though there is a certain amount of difficulty involved in determining the contract targets of wholesale enterprises, by seeking the truth from facts we can still do it. Some companies (such as cotton and fruit companies) are affected a great deal by policy and production, and they can solve their problems by being a little flexible when signing contracts and allowing the contracts to be adjusted at appropriate moments. If retail enterprises can run this system and wholesale enterprises cannot, then contradictions will arise between retail and wholesale enterprises. The enthusiasm of wholesale enterprises will not be aroused, and this will directly affect the smooth carrying out of the management contract responsibility system of retail enterprises. With regard to the entire company, it is difficult for the company to do its work if the retail enterprise runs this system and the wholesale does not; with regard to the entire county, if one company can run this system and another company does not, the county's supply and marketing cooperatives will be pressured. How then can the municipal government this year require that the systematic enterprise consolidation of supply and marketing cooperatives comprehensively start to be carried out. The management responsibility system is one of the five great items of enterprise consolidation, and it seems that it just has to be carried out. In fact, from the viewpoint of the circumstances of five companies in Zhenjiang that have already promoted the management responsibility system, the results have been better than we anticipated, and the main economic targets completed exceeded the planned schedule. Each company basically accomplished the goal whereby "the person determines the post, the post determines the responsibility, the responsibility determines the distribution and the distribution determines the reward." They competently aroused the enterprises' and workers' enthusiasm for management, and the reflections have been outstanding. Experience has proven that wholesale enterprises promote the management system of responsibility when the conditions exist. Even if they run up against this or that type of problem when promoting this system, they must find a solution by seeking the truth from facts and should not "refrain from doing what is necessary for fear of a slight risk."

Second, how advanced and reasonable the contracted targets that are set are is a key problem in promoting the contract responsibility system, and it is also a complex problem. Some advocate that the targets be based on the average annual increase from the past 3 years; some advocate taking the difference between last year's plan and last year's actual increase; and some advocate using the actions from the past 3 years in a row as a target, etc. I think that the above methods for determining contract targets are neither advanced nor sufficient enough. Because there are many different types of supply and marketing cooperatives, because their business is thriving and they are affected by natural conditions and management facilities, contracted targets cannot be "arbitrarily uniform." Otherwise, if they are not too high, they will be too low. We should adopt the fluctuating factor of last year's actual increases or decreases (factors with a fairly great effect) and add the county's average rate of increase (the average rate of increase must be determined by the actual circumstances of the enterprise). This method will be easy for enterprises to accept. Because of the fluctuation factor of increases and decreases, we can achieve rationality; by adding the average rate of increase throughout the county, we can ensure that the increase is not lower than the county's average level and can embody the principle of "being vigorous and dependable as well as leaving some margin." Certainly, contracted targets are the same as other matters, and there cannot be absolutes. Speaking from experience, even if advanced and reasonable targets are set, some units will also "go all out in the first quarter, intensify their efforts in the second quarter, slow down in the third quarter and make their calculations in the fourth quarter." Units that set fairly low targets are particularly prone to do this. Some enterprises fear that in the coming years, "when the production cost rises, commodity prices will rise with it" and that they will be ambushed in completing their economic targets, to the point that they will disregard the needs of the market or violate the regulations of the system. Thus, besides strengthening political and ideological work, we can make a small readjustment in determining the contract quotas, and it will be the same for retail enterprises (including grass-roots cooperatives) as it is for agricultural production, and in a certain number of years (the targets for other industries will be determined based on circumstances) we can thus free enterprises of their apprehensions of "whipping the fast ox." We can avoid wrangling over the quotas year after year and can finally settle the situation of exceeding the targets for years on end. At the same time we can also save the precious time that was wasted in discussing the targets. I think that a few enterprises of the supply and marketing cooperatives are affected a good deal by purchasing and selling policies and natural disasters and that contracts can be drawn up a little more flexibly. In short, we must seek the truth from facts.

Third, there are problems with examining many targets. In implementing the management responsibility system, we must improve the enterprises' economic and social results. To do this, each enterprise must be based on different circumstances and examine many targets. Otherwise, it will

be easy for them to one-sidedly pursue individual targets, and undesirable consequences will arise. According to the demands of supply and marketing cooperatives, besides taking into consideration the volume of commodity sales, total profits, cost level and turnover of funds, grass-roots cooperatives must also consider the volume of purchases of agricultural produce and sideline products, help the "two households" [specialized households and key households] develop commodity production, help small-town enterprises market products and organize the supply of materials and other targets. These without a doubt are all possible as well as necessary. However, we do not examine many targets all in the same manner and we do not differentiate between the primary and secondary. I think that under normal circumstances, profits must be considered primary among all targets, and other targets secondary. The reasons are: 1) profits are a comprehensive target. The economist Sun Yefang [1327 0396 2455] said: "By paying attention to profits, we lead the ox by its nose." "Enterprises need only to lead the ox by its nose, and other problems can then be managed." I approve of this idea in every way. This is because under normal circumstances, when sales are high and gross profits are high, profits are also high; and when costs are cut and consumption is low, profits are then high. The turnover of funds is also like this. 2) We must ensure that the state receives the lion's share, that enterprises receive a medium-size share and that individuals receive a smaller share. This is an important principle that we must maintain in implementing the management responsibility system. However, we must competently arrange these three relationships using profits as a premise, and other targets cannot replace profits. 3) Profits are primary, and other targets can be checked in the same manner. In examining many targets we can use "fixed work points with flexible values" or "flexible work points with flexible values." For example, some enterprises in contracts can add on the profit targets that they have overfulfilled and deduct those that they have not completed; other targets that have been completed or overfulfilled cannot be added on, but if they are not completed they can be deducted. The advantage of this method is that it can guarantee the state's revenue. At the same time, enterprises must also pay attention to other targets, otherwise profits will be deducted. In short, profits must certainly be considered primary in contracted targets, and many targets must be examined. The examining methods can be worked out to suit local conditions and banks, and the emphasis should be placed on choosing one to use.

Fourth, in the distribution of bonuses, how we make it so that units are not on the same level and individuals are excluded. Provincial supply and marketing cooperatives stipulate that the floating wages of county-level cooperatives are determined by municipal supply and marketing cooperatives. I feel that this is largely unnecessary. This is first of all because each county has its own specific circumstances and its own conditions, and there are difficulties in having municipal supply and marketing cooperatives use a certain style to determine the level of floating wages. Second, each county does not adopt toward its subordinates a "percentage award"; thus, if when determining the county's total level



we find that it is less than the floating wage level of each unit, the contract cannot be honored and the county cooperatives are passive. Third, with the "simplify the government and delegate authority" policy that is currently being advocated, we must believe that county cooperatives are able to manage floating wages competently. Some county companies reflect that they do not run a "100-mark system" for subordinate units, but adopt the method of "being responsible for a quota and distributing the extra profits." At the end of the year, if some groups of shops (guizu [2922 3809]) or departments have overfulfilled their contracted targets, other groups and departments have not completed their tasks and if the floating wages of higher-level examining companies cannot be honored in units that have overfulfilled their targets, what do we do? I think that municipal and county cooperatives must seek the truth from facts and must permit companies to put in applications, and after they have been approved by cooperatives, they can still honor the contracts of the groups and departments that have completed and overfulfilled their targets and truly achieve a situation whereby units are not all on the same level and individuals are not excluded. However, the companies' leaders and other administrators cannot draw up floating wages in light of the levels of units that have overfulfilled targets; by seeking the truth from the facts in the contracts, they should certainly issue floating wages to a lesser degree or not issue floating wages at all for the groups and units that have not completed anything. This way we can have rewards and punishments, differentiate between rewards and punishments, use what is taken from the people to ensure that the contracts are honored and enable the management responsibility system to improve and develop continuously.

12437

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ECONOMIC MANAGEMENT

XINHUA CHRONICLES QINHUANGDAO IMPROVEMENTS

OW011642 Beijing XINHUA in English 1604 GMT 1 Feb 85

[XINHUA headline: "Qinhuangdao Smartens Up"]

[Text] Qinhuangdao, 1 Feb (XINHUA)--Qinhuangdao Port, known for its seaside resort of Beidaihe, has become a smarter, cleaner and more convenient place to travel about, city officials said here today.

Five new roads, three flyovers and 65 pollution-control schemes were completed last year at the port in Hebei Province, one of China's 14 coastal cities opened recently to foreign trade and investment. The new roads with a total length of 21.4 kilometers lead from the city proper to the harbor or the economic and technical development zone.

Qinhuangdao has also made efforts to landscape itself. Citizens here planted 170,000 trees and covered 110,000 square meters with grass or flowers last year.

Housing with a total floor space of 340,000 square meters was built, double that in 1983 and enough to accommodate several thousand families.

In the seaside resort of Beidaihe, 37 new buildings with a total floor space of 98,000 square meters will be completed by the end of June, officials said. A water main from the city to Beidaihe is now under construction.

State investment in infrastructure here last year was equal to the total during the 30 years between 1949 and 1979, according to city authorities. The 1984 figure is expected to double this year.

CSO: 4020/108

## ECONOMIC MANAGEMENT

### DEVELOPMENT OF FAST FOOD INDUSTRY UNDERWAY

OW011304 Beijing XINHUA in English 1240 GMT 1 Feb 85

[Text] Beijing, 1 Feb (XINHUA)--Fast food factories, which will be able to serve up 1.3 million snacks a day, will be built across China by the end of the year, it was announced here today.

Yuan Huo, general manager of the China Food Industry Technology Development Corporation, said one producing 400,000 meals a day would be built in Beijing. The others, turning out 100,000 snacks each, would open in Dalian, Wuhan, Hangzhou, Guilin, Xian, Guangzhou, Jiangmen, Maanshan and Datong.

Discussions are underway to import most of the equipment from abroad, including Japan and the United States.

Yuan said the snacks, mostly Chinese style with rice and vegetables, would cost from 0.50 yuan to 1.50 yuan each, and would contain between 2,400 and 3,200 calories. They would be supplied to factories, mines and government offices, as well as being sold from stalls and vans.

According to estimates, three-quarters of the 4 million factory and office workers in Beijing eat their lunches in more than 3,000 canteens. A large number of the 1 million students and pupils eat at home, while the 600,000 to 700,000 travelers from other parts of the country eat at old-fashioned restaurants or buy what they can at food stalls.

Hungry diners often have to wait more than 1 hour in overcrowded restaurants, while cooking on coal stoves takes about the same time for most local residents who have to eat at home.

The cutting of the noon break from 2 hours to 1 this year in government offices has also exerted a great pressure on the already overburdened canteens.

More than 1,000 private small restaurants, each with 3 or 4 tables, have opened in the past few years, and these have helped in some way towards solving the problems.

Beijing's Light Industry Bureau official, Gao Ren, said great efforts had been made to develop fast food and convenience food.

The city already had three large snack bars with a daily turnover of 20,000 meals, and 20 more were expected to open before the end of this year.

Converted mainly from traditional restaurants with imported equipment, they were expected to serve another 20,000 snacks a day.

Some factory chiefs have said they would like to supply fast food to their workers instead of using their old-fashioned canteens.

Nonstaple food-processing factories in Beijing have been turning out more convenience foodstuffs, including bread, biscuits and quick noodles, more steamed buns, pies and rice dumplings are also being produced.

CSO: 4020/108

ECONOMIC MANAGEMENT

SHANGHAI FACTORIES GET MORE BUSINESS AUTHORITY

OW030858 Beijing XINHUA in English 0839 GMT 3 Feb 85

[Text] Shanghai, 3 Feb (XINHUA)---The 43 cotton mills in China's leading industrial city of Shanghai, will have the right for direct business talks with foreign dealers and setting up of trade agencies or factories overseas, according to the local foreign trade department.

This is an important move to expand the import and export right of the textile factories. Before, only handkerchief factories had such right.

These factories will be formed into Xinlian Textiles Import and Export Corporation next month. It can conduct joint ventures and have cooperative production, compensation trade, processing with supplied materials, leasing, and other economic and technical cooperation with overseas firms.

This corporation with a registered capital of 100 million yuan, is so far the biggest entity integrating industry with trade in Shanghai. Shanghai already has such corporations for toys, handkerchiefs and machinery.

Export commodities of the corporation include cotton and polyester yarn, bleached cotton cloth, colored cloth, prints, yarn-dyed cloth and tea cloth. Its imports include different kinds of animal and plant fibers, chemical fiber, dyestuff and packaging materials.

CSO: 4020/108

## FINANCE AND BANKING

### PRICING OF HIGH-QUALITY DURABLE GOODS DISCUSSED

Shanghai SHANGHAI KUALJI [SHANGHAI ACCOUNTING] in Chinese No. 9, 25 Sep 84 pp 26-29

[Article by Yu Yongbin [0060 3057 2430] of the Financial Affairs Department of the Shanghai Camera Plant: "On the Ideology and Methodology of Pricing Durable Consumer Goods"]

[Text] Durable goods refer to high-quality daily commodities that are higher priced and that have a long usable period, such as watches, bicycles, sewing machines, cameras and household electrical appliances. These types of products are characterized by a high value, they are closely related to people's lives, they require great flexibility, and they occupy a very important position in the production and consumption structure of light industrial products. This article will discuss some views concerning the change in the thoughts about their pricing and the reforms in the method of pricing to facilitate actively utilizing the economic lever of price to realize the goals of stimulating production, increasing accumulation, enlivening the market and satisfying consumption.

For a long time in the past, the function of the law of value in the socialist commercial economy was not taken seriously. The function of prices to regulate production, circulation and consumption was not taken seriously, and furthermore, the interference by the ideological tide of the "left" in guiding ideology in economic work created a blurred understanding of the purpose of socialist production, and pricing of durable consumer goods subjectively and unscientifically expanded the divergence between price and value, thus leading to overpricing. This pricing method that is not based on value, that does not take into consideration the relationship between supply and demand, that separates production, circulation and consumption, is unfavorable to the development of production and has also limited consumption. First, in production, the enterprises padded costs in order to obtain a high ordering price, and this increased our laziness in improving production and business management. This in turn caused all lack of an internal force in enterprises for technical reform, quality improvement and development of new products. This caused the products to age, varieties become few, and slow upgrading and replacement became a major

characteristic in the production of durable goods. Second, the high price forced the level of consumption to drop and thus correspondingly shrank the market capacity, and basically hindered the development of production and affected the elevation of the people's living standards.

I believe that when durable consumer goods are produced as commercial products with mainly the individual as the consumer in mind, their pricing philosophy should start out from the viewpoint of "satisfying the people's needs in their material and cultural life," and it would be more rational to establish their prices on the basis of "developing production, encouraging consumption, on goodness of quality and cheapness in price, and on selling more at marginal profit." This is because:

1. This pricing philosophy is favorable to implementing the principle of gradually improving the people's living standard and it is consistent with the goals of socialist production.

In view of satisfying the ever-increasing needs in the people's material and cultural life, this is to say, in view of elevating the people's level of consumption, pricing of consumer goods should take into consideration the possibility of consumption so that prices will correspond to purchasing power. Otherwise, it will create a gap between production and consumption, and it will contradict the goals of socialist production.

2. This pricing philosophy is favorable to improving the business management of enterprises and economic results, and it corresponds to the demands of the laws of value.

The laws of value require prices to fluctuate around value and require that prices be established on the basis of value. If prices are too high, consumers will not be willing to buy, causing stagnation and accumulation of products in society. If prices are too low, producers are not enthusiastic about production, there is no way to accumulate capital, and reproduction cannot be expanded. Only by taking into consideration both "low prices" and "marginal profits" and by linking production and consumption in considering price levels will consumers have purchasing power and producers be able to make a profit. "Marginal profits" are favorable to encouraging advanced enterprises to further develop their productive potential and use more advanced technology to improve labor productivity and realize more profit than other enterprises. On the otherhand, it can stimulate backward enterprises with higher average costs to exert efforts to strengthen business management, to reduce costs and to turn losses into profits. Therefore, low prices and marginal profits are complementary, the former can attract consumption and the latter can stimulate production to realize unity in contradiction.

3. This pricing philosophy favors the expansion of the scale of production of enterprises and increasing the rate of social development, and it coincides with the principle of adjusting the proportional relation between accumulation and consumption.

Accumulation refers to two parts, taxes and profits. The amount of accumulation directly affects the price level, and prices react upon production and consumption.

The result of singularly emphasizing high accumulation will destroy the normal balance between accumulation and consumption, tying up markets and hindering increases in production. Lessons of the past have sufficiently proven this. The key to the question is that the expansion of reproduction requires capital, capital comes from accumulation, the realization of accumulation depends on consumption while consumption is determined by reasonable prices. Therefore, the line of thinking in pricing of "good quality goods at low prices, and selling more at marginal profit" can help us adjust the ratio between accumulation and consumption within a definite scope, and it favors a healthy increase in accumulation and the expansion of reproduction, and thus enables us to continually satisfy the ever-increasing consumption needs of the consumers.

4. This pricing philosophy favors developing markets, and it is especially favorable to developing rural markets. It coincides with the new situation of transition from a seller's market to a buyer's market.

As our nation's economic situation rapidly advances, as the people's life is improved daily, in particular, a broad rural market has been formed. Under this situation, the people's purchasing power is growing more prosperous, and the people's selectiveness toward durable consumer goods has become stronger. In this way, even though durable consumer goods suitable to the taste of consumers have increased, it seems that demand is outpacing supply more and more by contrast, while the sale of those higher priced and lower quality products of outdated designs is stagnating and serious accumulation has occurred. To solve the above conflict and open up markets, we must demand "good quality" and "low prices."

Then, how can we suitably apply the line of thinking for pricing described above in actual work? I believe we need to reform the current pricing method. The current pricing method for consumer goods uses the formula "medium cost + reasonable profit + tax = manufacturer's price." Medium cost refers to medium cost under normal production and rational business management. In form, it seems to fit the principles of political economics that require socially necessary hours of labor, but in fact it is not so. First, when a certain new product emerges, the average social cost has not emerged, and when pricing this product, this medium cost can only be an individual cost of the producing enterprise. It cannot possibly be society's average cost. The so-called "medium cost" is only an estimate, and reasonable profit can only be the enterprise's individual profit. Therefore, the manufacturer's price calculated by the above formula is actually established on the basis of individual value. Second, this pricing method at most considered only the basis of price formation--the value factor--but it did not include the supply and demand factor. Prices formed this way are unilateral and they are not easy for consumers to accept. Third, this pricing method mainly considered the benefits of the producer with unilateral emphasis on what the product should be priced for sale without any emphasis on whether the price is suitable to the consumption level of the consumer, whether the product can be sold, or whether its utility value can be realized, therefore it has deviated from the correct path of the goals



of production. Fourth, this pricing method that is actually established on individual value is also unfavorable to urging enterprises to lower costs and improve business management.

To truly realize the idea of pricing good "to develop production, encourage consumption, produce good-quality and low-priced goods, and to sell more at marginal profit," we should shift the basis of establishing prices on what the product would sell for to what the product can sell for. I believe, we should pay attention to the market and fully consider the effects of prices on supply and demand, and comprehensively consider the market demand and productive capabilities to establish prices. To satisfy these demands, we can use the following pricing formular: "manufacturer's price + tax + target profit = target cost." This formula starts out from what the product can be sold for on the market and seeks the target cost instead. Its advantages are as follows:

1. This formulartakes into full consideration the characteristic that there are large fluctuations in the consumption of consumer goods. The practice of determining the manufacturer's price that would be easily accepted by the consumer based on the market situation and then establishing the target cost an enterprise should realize will benefit achieving a balance between production and marketing and between production and consumption.
2. This formula can stimulate enterprises to control the entire process of developing new products in two aspects, value and utility value. This favors producing products that are suitable for marketing.
3. This formula is favorable to the enterprises in improving business management, strengthening cost control, utilizing many ways to reduce individual values and to strive toward lowering the cost of products to below the target cost and to improve the economic benefits of the enterprises.
4. Because the technical structure, labor productivity, sources of raw materials, and conditions of production of each enterprise are not the same, the above pricing method will be favorable to the enterprises in choosing the direction of production and operation based on their own situation and in determining the structural levels of products.
5. This formula is favorable to stimulating the enterprises to use overall quality control, value engineering and such modern scientific management methods in management.
6. This formula is favorable to the enterprises in adjusting product structure according to market changes and in upgrading and replacing products well.

Of course, using the above pricing method to set prices is much more difficult than using the current method. It requires enterprises to have a perfect means of cost control to combine cost control and cost calculations, and it also requires enterprises to establish a market information feedback network, conduct frequent market surveys, make market forecasts and price surveys. In addition, cadres involved in setting prices for the products of the enterprises should also master some methods of managerial accounting, for example, the "target cost method," the "marginal contribution method," and "flexible cost forecasting."

Some comrades have pointed out that determining the prices of durable consumer goods according to market conditions is negating the theory of planned prices. Actually, prices in socialist economic conditions exist in two forms, planned prices and unplanned prices. Unplanned prices are also limited by the laws of socialist economics and national policies. Also, theoretically, when establishing planned prices, we must not only base them on value, we should also fully consider the supply and demand of the products (productive capability, consumption level, volume of consumption), and consider the economic policies of the state in specific historical periods and other factors that make up the price. In the past, when we established planned prices of durable consumer goods, we neglected the supply and demand situation and such factors that make up the price, thus the degree of divergence between prices of durable consumer goods and value increased. It cannot be denied that this resulted from a partial understanding of the theory of the formation of planned prices.

On the other hand, when the state controls the majority of the markets, it can arrange production and guide consumption according to state policies, it can provide market information to the enterprises in time via agencies that compile statistics, help enterprises establish suitable prices, and at the same time, it can utilize the economic lever of tax revenues to adjust prices so that they will suit the already changed markets. Therefore, the pricing method of using market situations to determine the prices of durable consumer goods is a kind of pricing method using social values already accepted by society as the base and using value (including utility value) as prerequisites to realize the price. It is not negating the theory of the formation of planned prices, but rather, it makes the formation of planned prices more reasonable, more perfect and more suitable to the economic laws of socialism.

Some other comrades worry that the pricing method described above will disturb the implementation of the policy of stabilizing commodity prices. We say that the purpose of this kind of pricing method is to reduce the divergence between the prices of durable consumer goods and value, and this kind of divergence is an important factor in the instability of prices. To eliminate this unstabilizing factor, we can reform the pricing method when establishing prices, and fundamentally speaking, it is to better stabilize prices, and this kind of reform itself is favorable to the development of production and encourages consumption. Of course, when using a new method of pricing, not only will the price levels be temporarily affected at the beginning, it may also temporarily affect the balance between supply and demand in the market (actually, the movement of the market from imbalance to balance, and then to imbalance is the motive force to develop production of commodities). This kind of effect has its advantageous side and also its disadvantageous side. The advantageous aspect is that when using the pricing method described above, the markets of durable consumer goods will frequently fluctuate and this is used to promote production and stimulate consumption. The disadvantageous aspect is that within a short period, a stable increase in the state's financial revenues cannot be guaranteed (here, we are referring only to the accumulation of revenue the production of durable consumer goods can provide the state), but in long-range benefits, it is good for finance. To eliminate unfavorable factors, we can implement some appropriate measures, such as adjusting the prices of outdated products less or even not adjusting them but allowing them to be

naturally eliminated in the course of production and consumption, and at the same time, gradually let the the prices of products come close to their social value. We can lower some of the prices of durable consumer goods that are obviously priced higher than their value while the state raises some prices of commodities that are obviously priced lower than their value. In this way, there are price rises and price drops and this will not affect the general level of prices too much. As long as we do not understand the policy of stabilizing prices as a freeze on prices, we can eliminate the worry about price instability caused by the use of new pricing methods.

We have made a preliminary study of why we should use "developing production, encouraging consumption, producing goods of good quality and lower price, selling more at lower profits" as the pricing thought for durable consumer goods, and the pricing method derived from it. Because prices of durable consumer goods directly affect the material and cultural life of many families, and because the mechanism of price formation is very complex, involving other sectors of the national economy, and because this writer has not been working long in setting prices for enterprises, certain viewpoints may not be absolutely correct and the argument may have shortcomings. Therefore, criticism and correction from all circles are welcomed. But one point is definite, as economic reforms deepen, adjustment of the current irrational prices of durable consumer goods undoubtedly has a very important meaning in the developing of the national economy, in carrying out our nation's "four modernizations" and in elevating the people's living standards.

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## FINANCE AND BANKING

### DEVELOPMENT OF DESCRIBED INSURANCE

Beijing ZHONGGUO JINRONG [CHINA'S FINANCE] in Chinese No 10, 4 Oct 84, pp 18-20

[Article by the Chinese People's Insurance Co: "China's Growing Insurance Industry"]

[Text] The Chinese People's Insurance Co was established shortly after new China came into being in 1949. For 35 years, the Chinese People's Insurance Co has contributed to the establishment of our nation's economic compensation system to develop our nation's socialist insurance business.

#### Establishing New China's Insurance Business

The insurance market of old China was monopolized by foreign insurance companies and insurance companies with the Kuomintang's bureaucratic capital. The business of some insurance companies funded by private capital and being run over and squeezed out by insurance companies founded by the Kuomintang's bureaucratic capital was slow. They could not sustain themselves for long and on the eve of national liberation, they had reached the verge of bankruptcy.

The establishment of the Chinese People's Insurance Co opened a brand new page in the history of the development of China's insurance. It was the first time for China to independently provide insurance to serve the socialist revolution and socialist construction. To adapt to the needs of reviving and developing the national economy, the Chinese People's Insurance Co set up a network of offices and agencies throughout the nation, and gradually handled and developed various domestic and international insurance business, including fire, freight, marine, auto, postal, animal, agricultural crop and harvest, life and accident insurance for passengers and such domestic insurance services, and ocean freight insurance, oceangoing maritime insurance, international reinsurance and such international services.

During the 10 years from the time the insurance company was established in 1949 to 1958, it took in more than 1.6 billion yuan in premiums, paid out 380 million yuan in claims, and also appropriated 23 million yuan as fire-fighting funds. During the 10 years, it submitted more than 500 million yuan to the national treasury. The insurance company accumulated an insurance fund of more than 400 million yuan, and saved it in the bank as credit and loan funds. By the end of 1958, the nation had established about 4,600 insurance agencies with more than 50,000 workers. During this period, our nation's

insurance business realized prosperous development and achieved great successes. This has served an important role in establishing our nation's economic compensation system, in supporting the revival and development of the national economy, in promoting our nation's trade with other nations on the basis of equality and mutual benefit and in accumulating construction funds for the state.

In 1958, during the establishment of people's communes in the rural areas, the "wind of communism" roared, everyone ate from the "big pot." Some people believed that after the establishment of people's communes, everything would be taken care of by the state and the people's communes, and insurance served no purpose. Therefore, except for international insurance services, all domestic insurance services ceased.

In 1966, after the "Great Cultural Revolution" began, some people under the ideological influence of the "left" regarded insurance as a thing of "feudalism, capitalism and revisionism," and branded it as one of the "four olds" that must all be destroyed. And some international services were terminated. Premier Zhou pointed out after learning about this that ceasing international insurance was a mistake. Insurance should still be provided. This effectively stopped the destructive activities to "do away with insurance."

#### Insurance Work Entered a New Period

After the Third Plenum of the 11th CPC Central Committee, the party carried out a great deal of work to bring order out of chaos, enabling the party's construction and socialist endeavors to follow a correct path. In 1980, we revived domestic insurance that had ceased for 20 years, and from then on, our nation's insurance business entered a new period of development. For several years, we actively revived and handled various domestic insurance services, and greatly developed international insurance services. They have served an important function to compensate losses caused by natural disasters or accidents suffered by society and the people, and to accumulate construction funds for the state. During the 4 years from 1980 to 1983, revenue from insurance premiums reached nearly 4 billion yuan, the insurance industry paid out about 1.3 billion yuan in compensation, and after deducting various expenses and reserve funds, it submitted nearly 400 million yuan to the state. At the end of 1983, the number of insurance agencies throughout the nation reached more than 1,500 with nearly 20,000 workers.

At the beginning of 1982, the State Council pointed out in its notice "Concerning the Revival of Domestic Insurance Services and Opinions on Future Development": "Actively developing insurance services is beneficial to gradually establishing our nation's economic compensation system, guaranteeing the normal production and operation of enterprises, stabilizing people's lives, and reducing losses of society's wealth. At the same time, it is an important channel to accumulate construction funds. This is a good thing that benefits the nation and the people, and it is an indispensable link in national economic activities." Facts of the past several years fully prove that the above view was entirely correct.

Over the past 4 years, domestic insurance services rapidly progressed and adapted to the development of our national economy and the elevation of the living standards of the people in cities and rural areas. While property insurance for state-operated enterprises steadily increased, rural insurance services also underwent new development. As the rural economic system was reformed, as production of commodities in rural areas developed, income of farmers increased. But, the economic foundation of farmers was still relatively weak, and the ability of scattered single households to protect themselves from natural disasters was relatively weak. To adapt to this type of need and urged by Document No 1 on "Several Questions Concerning the Present Rural Economic Policy" issued by the Central Committee in 1983, we provided fire insurance for wheat-drying yards in rural areas, insurance for flue-cured tobacco, fishing vessel insurance, private automobile and boat insurance, large livestock insurance and insurance for other animal husbandry enterprises, and crop insurance for pears, cotton and watermelon after the insurance company developed collective and individual household property insurance services. Throughout the nation, 28 provinces, autonomous regions and municipalities under direct jurisdiction of the central government began to provide various types of personal physical insurance. At present, the insurance company provides more than 40 kinds of domestic insurance services, basically adapting to various different needs.

As our nation opens its doors, as it broadly implements the policy of enlivening the economy, and as our nation's foreign trade and economic exchange gradually expand, new demands are being made upon our international insurance work, and they require us to continually expand the scope of international insurance services. At present, international insurance has developed from the singular freight insurance service at the beginning period of establishment of the insurance company to more than 40 kinds of insurance services, including petroleum development insurance, insurance for joint Chinese and foreign construction projects, insurance for installation projects, ship-building insurance and insurance for export workers, etc. which have been provided in recent years. In addition, we responded to requests by foreign companies and provided investment insurance (i.e., political upheaval insurance) to increase the sense of safety for foreign companies to invest in our nation's special economic zones, to invest in cities opened to outsiders, and to guarantee that they will realize reasonable returns on their investment.

Although the international insurance market was sluggish for several years, insurance premiums were low while more claims were paid, we still maintained relations of international risk sharing with insurance companies of the world's nations, and strengthened bilateral business and technical cooperation.

After the Third Plenum of the 11th CPC Central Committee, we eliminated the ideological influence of the "left," gradually strengthened relations with the insurance industry of various nations, actively participated in activities of the international insurance circle, and exerted active efforts to develop relations between our nation's insurance company and the insurance companies of the world's nations, especially the insurance companies of Third World nations. In recent years, the Chinese People's Insurance Co represented

our government and joined the Asian Reinsurance Co established by the Asian and Pacific Economic and Social Council, attended international insurance conferences of Third World nations and Western developed nations many times. Upon our invitation, the Ninth Conference of the Joint Asian and African Insurance and Reinsurance Conference, the Fourth Insurance Conference of Third World Nations and the Insurance Supervisors, Conference of Third World Nations will be held in Beijing in 1985 and 1986. All of these will serve actively to promote cooperation and friendly relations between our nation's insurance company and the insurance sector of the world's nations.

As the reform of our nation's economic system gradually deepens, as foreign trade continues to expand, the original system of the insurance company has become more and more unsuitable in the new situation. Therefore, the State Council decided that starting from 1984, the insurance company would become independent of the Chinese People's Bank to become an economic entity at the bureau level directly under the jurisdiction of the State Council like other special banks to carry out its duties independently and to fully develop its function. This important reform of the insurance system coincided with the requirements of the objective situation and it also showed the emphasis on and concern for our nation's insurance business by the Central Committee of the party and the State Council. The tasks shouldered by the insurance company have become more burdensome.

#### Summarizing Experience To Continue Advancing

Over the past 35 years since the founding of the nation, our nation's socialist insurance business has undergone a course of developing from nothing to something and from a small scale to a large scale, and has traveled a winding path. Over the past 35 years, we have had positive experience and also negative lessons. Summarizing the positive and negative experience and lessons, we realize the following truth: Insurance is an objective economic realm, it is the product of commercial economic development, it develops along with the development of commercial production, and it will die as commercial production dies. Its existence can never be decided by subjective human will. This is because:

First, in human society, natural disasters and accidents cannot be completely avoided, and especially in our nation with such an expansive territory, natural disasters occur almost every year, and they have brought about serious loss of human life and property of the state. Therefore, not only in capitalist nations, but even under socialist conditions, it is still necessary to independently accumulate insurance reserve funds not included in the state's financial budget, and to establish an economic compensation system for natural disasters and accidents under the guidance of the state's planned economy. In this way, when natural disasters and accidents occur, we can use this reserve fund to revive production and rebuild the nation without affecting the state's financial budget.

Second, under the past management system of "eating from the big pot," doing things well and doing things poorly were the same, and doing more and doing less were the same. When enterprises suffered losses due to disasters, the losses were simply written off financially. Now, the economic systems of the cities and rural areas have been reformed, and autonomy in management has been further expanded. Enterprises, shops, factories have all stipulated clearly the duties, rights and benefits of managerial personnel and staff members at each level. In order to complete various plans stipulated by the state and guarantee the material benefits of workers, enterprises also need insurance services to deal with the occurrence of various kinds of disasters and accidents. In particular, the large number of collective enterprises and individual economies are economically weak. Without insurance, they will surely go bankrupt when disaster and accidents occur.

Third, the history of development of insurance shows that insurance was related to maritime trade in the earliest days. Therefore, in international trade throughout the ages, this important aspect of insurance was indispensable. International trade can be realized only with insurance. Providing insurance well is favorable to promoting the development of international trade and economic exchange.

Fourth, providing insurance can also accumulate construction funds for the state. By setting up companies and providing insurance in ordinary years, there will be funds left over from revenues from insurance premiums after deducting payments for claims, various expenses and taxes and profits submitted to the higher authorities. The leftover funds can be deposited in banks as insurance reserve funds to serve as funds that the state can use to develop economic construction.

It was pointed out at the Sixth NPC held in May of this year that the economic work of our nation in the coming period should emphasize two tasks, the reform of the system and opening the nation's doors, and a series of reform measures were proposed. Insurance is indispensable in all economic activities and the daily lives of the people. The insurance company should conscientiously implement the important decisions to reform the system and to open the nation's doors. Recently, the Central Committee and the State Council asked us to quickly draw up insurance laws, and they have asked us many times to develop the insurance business. The emphasis on and support for insurance work by the Central Committee and the State Council are the most important guarantees for us to do insurance work well. While we celebrate the 35th anniversary of the founding of the nation, we must conscientiously implement the important directives of the Central Committee and the State Council, summarize the positive and negative experience in insurance work over the past 35 years, daringly reform the insurance management system and various aspects of work, further open up a new situation in insurance work, and promote the prosperous development of our nation's socialist construction.

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CSO: 4006/175



FINANCE AND BANKING

NEW PATH TOWARD PRICE REFORMS TAKEN

Guangzhou NANFANG RIBAO in Chinese 28 Oct 84 pp 1, 3

[Article: "Guangdong Province Has Developed Production, a Flourishing Market and Stable Prices; the New Road Taken Toward Price Reforms Has Yielded Outstanding Results; the Rate of Increase of the Social Retail Price Index Is Already Lower Than the National Level; and the People's Livelihood Has Improved"]

[Text] Recently, the responsible comrades of the State Council's concerned departments guided an investigative team, which after making an investigative study of Guangdong's price reforms and the restructuring of its financial system concluded that Guangdong has already taken a new path toward price reforms.

Guangdong's price reforms are encompassed in the plan that is being implemented after the 3d Plenum of the 11th CPC Central Committee for "opening up to the outside world" and "stimulating the domestic economy." At the same time that we are carrying out bold reforms of the economic system in many different respects, we have steadily progressed in a planned way and at the present time have already brought a new prosperity upon the entire province. With regard to the economic results of society, relaxing economic policies and readjusting the irrational pricing system have helped promote the development of production and an improved market supply, and it has also greatly improved the people's livelihood. With regard to production, gross industrial and agricultural output increased an average of 8.9 percent per year, higher than the national increase. Concerning circulation, we broke through regional barriers and the barriers between the city and the countryside. Supply improved, and the consumers' great needs for such items as fresh fish, fresh meat, and three types of poultry, tofu and vegetables especially were met; consumers could purchase as they pleased, and all types of light industrial products for daily use were amazingly abundant. The volume of sales of commodities at list prices, negotiated prices and market prices increased by a large amount, and urban and rural markets were flourishing as never before. Thus, revenue and taxes handed over to the state increased: last year revenue increased 30 percent compared to 1979, and the proportion of revenue in the nation as a whole increased from 3.2 percent in 1979 to 4.14 percent last year. At the same time,

the people's livelihood has improved, peasants have recuperated and the income of Guangdong's peasants has increased 105 percent compared to 1978 (because of the rise in the prices of the peasants' agricultural products, as well as relaxed policies and an expansion of the scope of products with negotiated prices and market prices, in 5 years the increased income from the rise in list prices, negotiated prices and market prices has thereby exceeded 9.1 billion yuan). The average worker's annual income (including bonuses) has increased 62.3 percent compared to 1978, and this has greatly exceeded the rate of increase of the social retail price index for the same period. It particularly must be pointed out that starting in 1982, prices had already started to stabilize, and the rate of increase of the social retail price index dropped 2.3 percent. Last year it dropped to 0.7 percent, in the first half of this year it again dropped to 0.55 percent and in the third quarter of this year it dropped to 0.1 percent. Starting last year, it was already lower than the national rate of increase, and market and negotiated prices continued to drop.

Guangdong's first good situation is evidenced in the results gleaned from relaxing policies, stimulating the economy, starting to use the law of value and using prices to carry out a market readjustment. In the past few years, on the one hand Guangdong has readjusted prices on a fairly large scale and on the other hand has reduced the scope of planned pricing. It has expanded the proportion of free pricing and within a fairly large scope (excluding the necessities for the people's livelihood) has carried out a market readjustment. We first of all raised the listed selling price of agricultural produce and sideline products by a fair amount and caused other prices to attain a fairly reasonable level. At the same time we reduced the scale of centralized and assigned procurements of agricultural produce and sideline products from more than 110 varieties to 13. We allowed even more products to enter into the scope of market readjustment, and with regard to the proportion of leftover goods, especially fresh goods, we basically carried out market readjustment.

With regard to industrial products, the province has determined for itself the buying and selling prices for goods which are produced and sold locally. We have implemented reverse subsidies for a few industrial products of daily use for which the producer price does not fluctuate after being raised. Because the cost of some goods deviates severely from reality, they affect the cost and market supply; examples include matches, hand-copied texts for students, low-watt light bulbs and other goods that are out of stock for long period of time. By appropriately readjusting the factory sales price, production has developed at an even quicker rate and the needs of the market have been met. At the same time, we have appropriately delegated the authority for price management, we have permitted prices to be floated for a fair number of commodities and industrial and commercial enterprises have agreed upon fixed prices for small products, except those listed as exceptions. We have appropriately raised the prices a little on a few industrial

raw and processed materials and on fuel (such as locally produced fuel) that we planned to use outside management for some goods and implemented a guaranteed base and a set price with an extremely small profit. Moreover, we also adopted special policies and flexible measures for pricing imported goods and goods that earned foreign exchange.

From the viewpoint of the circumstances of the past few years, Guangdong has had three outstanding characteristics in the preliminary process of reforming the pricing system: first, we closely integrated the reform of the pricing system with the reform of the pricing management system and changed the past maladies of having stifling centralization, stifling over-management and a single form of pricing, and we engaged in opening up and stimulating. When readjusting unreasonable prices, we adopted many forms and many different methods and did not engage in arbitrary uniformity and quick marches. Second, we both carried out the reform step by step and suited measures to local conditions, we gradually reduced the scope of centralized and assigned procurement for agricultural produce and sideline products, we gradually opened up the management of prices for industrial products of daily use and we gradually expanded the scope of negotiated prices and market prices, price differences and the proportion of sales. Third, at the same time that we loosened and stimulated prices, we strengthened planned guidance, strengthened economic measures and administrative management, integrated flexibility with control and synchronously developed flexibility and control. State-run enterprises actively participated in handling market commodities, used economic measures, adjusted the market's relationship between supply and demand, met the needs of the people's livelihood and attacked speculation and profiteering.

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CSO: 4006/111

FINANCE AND BANKING

BRIEFS

DIVERSIFICATION OF GUANGDONG BANKING--Beijing, 6 Feb (XINHUA)--Guangdong Province, now pioneering the implementation of the open policy, has diversified its international trust and investment businesses. The province's international trust and investment is now a full-fledged organization incorporating banking, production, trade and services. And as a result, it earned a profit of 13 million yuan in 1984, according to corporation general manager Chen Ming. Chen reported at a meeting of board of directors this week that had signed loan agreements with 24 foreign banks. Altogether, it now has business relations with 50 foreign banks. Meanwhile, Chen said, the corporation had extended loans of \$51 million to Chinese and foreign borrowers. It has also invested in a number of key capital construction projects in Guangdong, Chen added. In 1984, 297 leasing agreements were signed. And the corporation handled imports of \$58 million for more than 100 Chinese firms in 16 Chinese provinces and cities. [Text] [Beijing XINHUA in English 0653 GMT 6 Feb 85]

XIZANG RESIDENTS' SAVINGS INCREASE--Lhasa, 4 Feb (XINHUA)--Urban residents in the Tibet Autonomous Region each have an average of 664 yuan in bank savings. According to the regional banking authorities, urban bank savings deposits in Tibet reached a record 126.22 million yuan at the end of 1984. Of the savings, 76.4 percent were time deposits, indicating the stability of the economic situation. In the regional capital of Lhasa and its 11 counties, savings deposits of urban residents amounted to 79.17 million yuan last year, 293 percent more than in 1979. The region's handicraft industry boosted output value to 20 million yuan in 1983, up from 4.5 million yuan in 1979. More than 7,000 local people have set up retail shops in Tibet over the last 4 years. [Text] [Beijing XINHUA in English 0838 GMT 4 Feb 85]

CSO: 4020/109

INDUSTRY

VALUE OF SICHUAN'S DEFENSE INDUSTRY TO CIVILIAN ENTERPRISE

Chengdu SICHUAN RIBAO in Chinese 18 Jun 84 p 2

[Article by Feng Benchao [7458 2609 6389]: "Defense Industry in Sichuan Has a Strong Technical Force and Is Equipped with Advanced Equipment To Service Civilian Enterprise"]

[Text] In Sichuan, the defense industry possesses a dominant position in the areas of techniques and equipment, not only accomplishing the mission of providing military supplies and energetically producing civilian goods but also actively transferring outwards the scientific and technological achievements and techniques to accelerate technical progress in the civilian industry. It has provided more than 2,000 sets of light textile equipment and has transferred over 140 types of scientific and technological achievements and techniques to the civilian industry inside and outside the province in the last several years. Through long-time construction, the defense industry has laid a firm foundation with numerous technicians and with relatively advanced techniques and facilities. Its preponderant areas are:

1. It has a considerable number of computers, and therefore it can expand the scope of service for local industry. The defense industry owns nearly half of the large, medium-size and small computers and one-fourth of the minicomputers and microcomputers in the whole province. Some defense industrial enterprises have achieved gratifying results by using computers to conduct scientific calculations, data gathering and processing, auxiliary designs, business management and procedure control, etc. Utilizing the computer's unit programming technology, Institute No 209 designed and developed the laser-guided television tracking system's "image input equipment" which has been employed in medicine and industry. And by applying it to "spectrum analysis," Sichuan University won the prize for scientific and technical achievement awarded by the Ministry of Education.
2. Relatively advanced techniques of fine machining and special processing have been popularized and used in the defense and civilian industries. The techniques of inorganic bonding and swiftly starting salt furnace and extrusion tap processing, which are pursued in the defense industry, have achieved pretty good results. The extrusion tap is a tool that can, by employing metal plasticity, extrude threads in a hole. Using it in civilian goods production may push the rate of quality products up by 99 percent and,

at the same time, reduce the consumption of tools. Only the Chongqing Construction Machine Tool Plant saved tool costs of over 12,000 yuan a year. The weapons production system in Sichuan last year applied the swiftly starting technique to 38 salt furnaces and rectified the long-standing disadvantages of long starting times and the consumption of much oil. The system saved electricity over 7.2 million kwh over the entire year, valued at more than 570,000 yuan. In addition, it has other technical skills and technological methods: explosive forming, laser drilling and cutting, electroforming wave guidance and modulus 0.2-plus leaf gear precision stroke and spin forming. The modulus 0.2-plus leaf gear precision stroke technology can raise production efficiency 20 to 40 times and the spin forming technique can save labor and time as well as increase the strength and hardness of parts. Some techniques and technologies have been transferred to the civilian industry.

3. It has a comparatively strong ability to design, reproduce and remold machines for the light textile industry, food industry and the life. Based on their own peculiarities of techniques and technologies, a number of defense industrial enterprises provided 170 kinds of equipment totaling to more than 2,000 machines (sets) for the textile, leather, cigarette-making, brewery and tea-processing industries and helped light textile mills to remake and build 16 assembly lines in recent years. The Wangjiang Machinery Plant designed and manufactured more than 600 light textile machines (sets) and built 2 cigarette-regenerating machines for the Chongqing Cigarette-making Factory that made a profit over 7 million yuan within 2 years. The Sanjiang Machinery Plant set up for the Wangxian Taibai Winery a mechanized wine-making assembly line which is now in operation. The Nanguang Machinery Plant conducted productive technology transformation for the Wangxian Glass Factory and manufactured a unit-drop six-series individual-section machine which is operating effectively.

4. It has a technological and technical originality in the fields of hot working, coating and plating, energy conservation, disposal of three wastes (waste gas, waste water and waste residue), irradiation and checkout. There are 23 units in the defense industry pursuing the technique of remolding the middle temperature furnace by using aluminium silicate refractory fibres. They saved more than 470,000 kwh of electricity, more than 960,000 cubic meters of natural gas and 200 tons of coke a year. The total value amounts to over 160,000 yuan. With regard to the hot spraying and coating (welding) technique promoted emphatically by the state, the defense industry in Sichuan not only has a factory that can produce high-quality alloy powder for spraying and coating (welding) but also has a branch of skilled service troops. Besides, the defense industry knows the thin-plate argon arc-welding, laser defect-detecting and ethylene oxide waste gas-handling techniques which can be of service to the civilian industry.

12756

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INDUSTRY

SICHUAN SEEN AS IMPORTANT MACHINE-BUILDING INDUSTRY BASE

Chengdu SICHUAN RIBAO in Chinese 18 Jun 84 p 2

[Article by Chuan Jidiao [1557 2623 6148]: "Sichuan's Machine-building Industry Is Continuously Increasing Its Processing and Manufacturing Capacities"]

[Text] Through long-time construction, Sichuan's machine-building industry has formed a fair-size system which can manufacture sets of machines with a satisfactory variety of categories and at a pretty high grade. Therefore, Sichuan has become an important machine-building industrial base in our country.

For over 30 years since the founding of the People's Republic, the average rate of increase of production of the machine-building industry in Sichuan was 20 percent per year. More than 300 enterprises in the machine-building system, including major mines and those of machine tools, instruments and meters, electrical engineering and appliances, automobile bearings, farm and general machinery etc., have spread all over the province and have manufactured over 6,000 kinds of products. They can make such giant and heavy essential machines as 300,000-kw hydroelectric generators, 300,000-kw steam turbine generators, 4,200-mm rolling mills, 2.4-million-kilocalorie turbine freezers, 75-ton hydraulic-pressure auto cranes and such advanced precision products as high-precision single-cylinder optical jig borers, accurate instrument machine tools, high-grade inverted microscopes and automation meters. In the course of national economic readjustment, Sichuan's machine-building industry has conscientiously readjusted the structure of products and actively expanded the scope of its service. While emphasizing the orientation products, it has accelerated the development of seriated products, variable pattern products and products closely relating to the enterprises' directional products. In the last 3 years, the machine-building industry in Sichuan successively trial-produced more than 1,400 new products to fill the blanks in the country.

The new varieties include YBA-type 3132 semi-automatic high-efficiency hobbing machines, 1.6-cubic-meter hydraulic pressure excavators, 170,000-kw revolving-paddle hydroelectric generators, and 5-cubic-meter liquid oxygen storage and liquefaction facilities. To suit the needs of the new situation in the rural area, the machine-building industry produced a number of small-size, flexible and multi-use new products for the purpose of "two households"

development in the countryside, the technique reform of the enterprises in the township and construction in the small city and town. Vast numbers of users warmly welcome these products as soon as they are put on the market. Last year the industry secured a contract and exported to Peru 22 hydroelectric generators, which started to operate and generate electricity at the beginning of this year. The industry has considerably improved both the quality and the quantity of its products in recent years. In selected examinations among 220 products that were stipulated as focal inspection items, over 98 percent were up to standard.

Throughout the province, 168 kinds of products have won the national gold or silver awards and the departmental or provincial quality goods awards, respectively. Owing to the extension of category and the elevation of quality and quantity, the number of the enterprises producing engines and electric appliances for export has increased to more than 60 with up to 100 categories of products, exporting to nearly 30 countries and areas such as the United States of America, West Germany, Switzerland and France. The machine-building industry in Sichuan has gradually improved service work to a considerable extent in recent years, from supplying simple machines and single devices in the past to providing complete sets of equipment and from manufacturing but not repairing to actively offering a series of services including maintenance, installation, adjustment and training personnel. In addition, some have brought forth "one key project" and "package service" to facilitate the users. Now the machine-building industry can supply small-size hydroelectric-generating apparatuses, large power stations, freezing facilities and small-scale chemical fertilizer, small-scale cement, sugar refining, petroleum, butcher and farm by-product processing, etc. and scores of sets of equipment. In their package service, some enterprises have broken the bounds of trade and region to handle freight and place orders on behalf of the customers. Many enterprises have established sales service network outlets outside the province or in other places so as to serve the users on the spot.

12756

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INDUSTRY

LIGHT INDUSTRY SHOWS FASTEST GROWTH IN 1984

OW051748 Beijing XINHUA in English 1610 GMT 5 Feb 85

[Text] Beijing, 5 Feb (XINHUA)--1984 saw the fastest growth in China's light industry for the last 4 years, with total output value reaching 132.2 billion yuan, 11.3 percent more than in the preceding year, according to the Ministry of Light Industry today.

The soaring production of consumer durables still fell short of demand. Statistics show household refrigerators increased 2.8 times, washing machines, 44 percent and electric fans, 93.2 percent. Beer, furniture, detergent, machine-made paper and toys also increased anywhere from 11.9 percent to 42.4 percent.

China put 12 billion yuan in building more than 150 large and medium-sized light industrial projects over the past 6 years, including 45 completed last year. Production capacity added includes 450,000 tons of machine-made paper, 1.46 million tons of sugar refinery, 1.7 million tons of salt, 9.4 million tons of leather, 50,000 tons of detergent, 130,000 tons of plastic products, 160,000 tons of glass and 4,000 tons of machinery for light industry.

Most of the equipment for the new projects were imported. The newly built Nanjing alkylbenzene plant and the Kunming trio-sodium phosphate factory have brought to an end the long standing dependence on imported materials for making detergent.

Consumer goods production will still be given priority this year in the supply of raw materials, fuel, power, technical transformation, capital construction, bank loans, technical import and transportation, Minister of Light Industry Yang Bo said at a national conference of light industrial bureau heads now in session here.

Effective measures will be taken to update the existing 73,000 old enterprises and accelerate the pace of technical import, he said.

CSO: 4020/108

## CONSTRUCTION

### OPEN BIDDING IN DALIAN'S CONSTRUCTION PROJECTS REPORTED

Beijing GUANGMING RIBAO in Chinese 28 Oct 84 p 1

[Article: "Dalian Opens up the Construction Market and Comprehensively Implements Competitive Bidding, Breaks Through Individual Monopolies, Encourages Competition in Every Respect and Stimulates the Building Industry; In 5 Months More Than 10 Units Submitted Bids, Bids Were Accepted for 370 Projects, Area of Construction Exceeded 774,000 Square Meters and the Area for which Bids Were Accepted Has One of the Highest Totals in the Country"]

[Text] At the Symposium on the Building Industry and Reform of the Capital Construction Management System held recently, the relevant departments of the CPC Central Committee paid great attention to the experiences introduced by Dalian's urban and rural construction committee on opening up the construction market by Dalian's building industry and comprehensively implementing open bidding.

Since May of this year, Dalian's building industry comprehensively implemented open bidding in order to break through individual monopolies, encourage competition in every respect, further develop the building industry and break through the "three barriers," i.e., the barriers between the city and the countryside, regional barriers and the barriers of the system of ownership. By the end of September, besides the construction contingents in Dalian, 10 companies one after the other such as the Chengde Municipal Construction Joint Company, the Yingkou County No 2 Building Company, the Fushun Municipal Government Company and the Luoyang Municipal Government Company participated in the bidding. A total of 12 groups of bids were accepted for 367 construction projects, totaling 774,600 square meters or 92 percent of the total area being built, and the area for which the bids were accepted has one of the highest totals in the country.

Dalian's work in competitive bidding is handled by the unified leadership of the municipal construction committee. It organizes the Construction Bank, construction corporations, housing management offices and other relevant organizations into small teams for accepting bids, and these teams are responsible for the work in organization, coordination

and examination and approval. In order to master the "three keys" of competitive bidding, i.e., qualified inspections, an opening bid that has been examined and verified and technical supervision by relevant departments over the city's 289 counties (districts)--neighborhoods, independently run factories and mines and rural construction teams made a reinspection of the qualifications, reregistered them and again determined their technical grade. They entrusted the Construction Bank with the responsibility of verifying and approving the opening bid and made preparations for establishing a budgetary consulting service department. They invited 37 renowned technical personnel who drew up budgets for projects or started bids. They also entrusted quality supervision stations with the responsibility of supervising and inspecting the quality of projects. At the present time they have already started to organize eight competitive regions and have initiated city wide "integrated" competitive activities for superior projects.

The competitive bidding has already attracted fierce competition between different types of construction enterprises, has stimulated the building industry and has demonstrated numerous superiorities.

We have reduced construction costs. According to the statistics from seven bids, the opening bids have been for 62.69 million yuan and the intermediate bids have been for 57.01 million yuan; 5.88 million yuan have been saved and the average cost has been reduced by 9.3 percent. This has thus solved the problem which has existed for many years in construction projects whereby the budgets exceed the budgetary estimates and the final accounts exceed the budgets.

We have reduced the period of construction. The bid for the contracted period of construction on the average is 23 percent less than the period of construction determined by the state.

We have ensured the quality of engineering. Currently, not only have all construction enterprises done a superior job and achieved good reputations with the period and the cost of construction, but they have also put in a lot of time and energy in the quality of engineering, they have vigorously promoted the technological revolution and they have made strict checks. From the viewpoint of inspections, comparisons and assessments, the quality of engineering has generally risen and the rate of outstanding products of the municipal construction system reached 84.3 percent, a 7.2 percent increase compared to the same period last year.

We have promoted a change in management styles of building enterprises. After opening up the construction market, a large group of rural construction brigades entered the city and tendered bids, and the continual entrance of construction forces from outside the city and province compelled construction enterprises to change their management habits

and to raise both the quality of the enterprises and their reputations in society. Many construction units actively drew up and implemented the "Rules and Regulations for Serving Customers." They took the initiative to solicit opinions from construction units, strengthened their resolve to make return visits for repairs, abided by the contracts, kept their word and changed the past situation of "not caring, being too busy and being untrustworthy."

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CSO: 4006/111

CONSTRUCTION

BRIEFS

ZHUHAI BUILDS NEW THERMAL POWER STATION--The China Guangda Group Company, Ltd., yesterday signed an agreement in Hong Kong with the Zhuhai Special Economic Zone [SEZ] Industrial Development Corporation to build a thermal power station and other cooperative projects. Wang Guangying [3769 0342 5391], the chairman of the board of the Guangda Group Company, Ltd., and Zhuhai's mayor, Liang Guangda [2733 0342 1129], participated in the signing ceremony. The power station will have two generating units with a generating capability of 100,000 kw. The \$50 million in investment as well as the fuel, technology and equipment will be raised or imported by the Guangda Group Company, Ltd. Construction on the power station will soon commence, and it is estimated that it will be completed in 2 years. After construction on the power station is completed, the Zhuhai SEZ Industrial Development Corporation will assume responsibility for management and administration. [Text] [Article: "Zhuhai To Build 100,000 kw Thermal Power Station; The Guangda Company Cooperates with the Zhuhai Special Economic Zone Industrial Development Corporation"] [Guangzhou NANFANG RIBAO in Chinese 9 Nov 84 p 1] 12437

CSO: 4006/111

## DOMESTIC TRADE

### ROLE OF LAWYERS IN DOMESTIC, FOREIGN TRADE DISCUSSED

Beijing LIAOWANG /OUTLOOK/ in Chinese No 44, 29 Oct 84 p 7

/Article by Yan Weimin /0917 5898 3046/: "Lawyers' Business Has Entered the Field of Economic Work"/

/Text/ Accepting the invitation of the state organs, enterprises and business units, social organizations and township enterprises to be legal advisers has become one of the major business operations of lawyers as stipulated by China's "Provisional Regulations on Lawyers." Since 1980, lawyers has begun entering a number of industrial and mining enterprises to help them in economic management by legal means.

With the promulgation of a great number of economic rules and regulations in our country and the development of foreign economic contacts, the relations between various economic organizations and numerous issues increasingly require readjustment and solution by legal means. Therefore, enterprises and business units eagerly desire to understand, study and master the economic laws and regulations and are in urgent need of lawyers to provide legal aid in various fields and to establish the system of legal advisers step by step. This is an important ground for strengthening the building of our country's economic legal system.

Practical experience has proved that as legal advisers, the lawyers have played a prominent role in assisting enterprises and business units to manage the economy by applying legal means together with economic means, in improving the operations and management of enterprises and in raising economic results, as follows:

--participating in the drafting and examination of economic contracts and assisting enterprises in setting up the contract management system and raising the level of enterprise management, the focus of the legal advisory work undertaken by lawyers;

--assisting enterprises to act in strict adherence with the law and ensuring the correct implementation of the state's economic laws and regulations in enterprises by providing legal advisory services;

--acting on behalf of someone in the settlement of economic disputes through lawsuits, mediation and arbitration, safeguarding the legitimate rights and interests of enterprises and establishing the normal economic order in the enterprises. According to statistics, in assuming the legal advisory work in 1983, lawyers throughout the country had settled more than 6,000 cases of economic disputes through mediation and lawsuits on behalf of those units which engaged them. Some of the economic disputes which remained unsolved over a long time even by administrative means were successfully settled with legal assistance offered by the lawyers.

In addition, the engaged lawyers have also done a great deal of work in participating in foreign economic and trade negotiations, in preventing and exposing economic crimes and in publicizing the socialist legal system.

Lawyers are still critically short in our country at present, with the number of fulltime lawyers throughout the country being less than 9,000 while the number of industrial and transport enterprises totals over 400,000, thus the situation of "having trouble finding a lawyer" has appeared in many places. To basically solve this problem, it is necessary to train legal personnel from within the enterprises and business units so as to equip the enterprises themselves with the ability to implement the economic laws and regulations. Thus, the lawyers in work have paid great attention to training and giving assistance to business executives and personnel of those units which engaged them; they helped these two ways in the main, namely, helping personnel in enterprises and business units who are doing the lawyers' work and, theoretically and in practice, passing on experience, giving help and setting an example in training new hands so that they can be receiving training while working, and at the same time conducting training courses.

12662

CSO: 4006/134

FOREIGN TRADE AND INVESTMENT

SINO-SWEDISH ECONOMIC RELATIONS, TRADE REVIEWED

Beijing GUOJI MAOYI [INTERTRADE] in Chinese No 8, 27 Aug 84 pp 51-52

[Article by Ma Rongzhi [7456 2837 3112]: "Economic and Trade Relations Between China and Sweden Are Developing Steadily"]

[Text] Although China and Sweden are separated by 10,000 li, their trade contacts are well established, dating back to the 18th century. Before liberation, trade between the two countries was minimal. But since the exchange of diplomatic relations and under the continual urging of both governments, cultural and trade contacts have increased steadily, the spheres of economic cooperation have expanded, and bilateral trade has also made encouraging progress on a basis of equality and mutual benefit.

Sweden was the first Western nation to establish diplomatic relations with China, and the first nation [in the world] to conclude agreements with China for industrial, scientific, and technological cooperation and for investment protection. And in recent years, bilateral exchanges have become more and more frequent. In 1979 China's former vice premier Geng Biao paid a visit to Sweden and signed a new bilateral trade agreement with then prime minister Ullsten (whereupon the 1957 trade agreement became invalid). China's deputy ministers of foreign trade Lu Xuzhang [4151 4872 4545], Lei Renmin [7191 0117 3046] and Zhou Huamin [0719 0553 3046], the minister of the First Ministry of Machine Building Li Shuiqing [2621 3055 3237], Transportation minister Ye Fei [0673 7378], chairman of the board of the Bank of China Bu Ming [0592 2494], Machine Industry minister Zhou Jiannan [0719 1696 0589], and economic and trade delegates from Tianjin, Shanghai, and Beijing have all visited Sweden in succession. And Sweden's ministers of industry Huss, Asling, and Peterson, minister of trade Feldt, communications minister Norling, and president of the Sweden Central Bank Rödland (?) all have visited China. By the terms of the agreement, each year an amalgamated trade conference as well as an amalgamated industrial and scientific-technological cooperation conference is to be held in the two nations' capitals on an alternating basis. In order to increase bilateral economic and trade contacts, China has held an economic construction exhibition in Sweden. Beijing, Shanghai and Tianjin [as published] have also participated in international consumer goods fairs for Sweden. Major exhibitions produced by Sweden in China include industry, energy, electricity, agricultural machinery, and medical apparatus and instruments. In 1983, Chinese-Swedish bilateral economic and



trade activities again reached new heights. According to Sweden's preliminary statistics, about 1,200 Chinese went to Sweden either for a visit, for study and observation, or to discuss trade, while approximately 2,000 members of Swedish economic and trade circles visited China. All of these activities have effectively boosted the development of Chinese-Swedish trade and have enabled bilateral economic and trade cooperation to steadily expand.

The Swedish government's posture toward China is friendly and stresses expansion of economic and trade relations. In 1979 it extended \$350 million in loans to China. In December of that year, the Swedish parliament accorded China general benefits system treatment which became effective February 1980. In 1980 the Sweden Trade Committee and four other organizations established the Sweden-China Trade Committee whose membership included over 90 enterprises, banks, and trade groups. In 1983, Sweden presented Beijing with equipment for a modernized milk processing center worth around \$1 million. It goes without saying that these measures have had produced positive effects on promoting Chinese-Swedish economic and trade relations.

Along with the development of bilateral economic and trade relations, the volume of trade between the two countries has grown appreciably thanks to efforts on both sides. According to Swedish statistics, Chinese-Swedish trade amounted to 44.13 million Swedish Krona in 1950; by 1983 it reached 1.47 billion Krona, a 33-fold increase. According to Chinese statistics, the increase was even greater. The volume of bilateral trade in 1950 was \$2.61 million; it reached \$170 million in 1983, which is a 65-fold increase. China's major exports to Sweden include canned mushrooms, canned fruit, wild fowl and game, frozen prawn, cotton yarn, grey cloth, clothing, rugs, rosin, bamboo articles, wickerware, bitter almond, leather goods, work [safety] gloves, drawnwork, tungsten ore, clinical gauze, soy sauce, and handicrafts. China's major imports from Sweden include pulp, paper, rolled steel (high-grade steel), and mechanical products (trucks, a variety of equipment, and instruments). In the past few years, the major technology and equipment imported from Sweden include high-voltage electric power equipment, medium-density fiberboard equipment and technology, welding electrode production line equipment, Renlund [brand name] elevators, and optical cold-working equipment for manufacturing specialized technology. Importation of these items has boosted development of Chinese-Swedish trade, and it has also benefitted China's economic construction.

Since China's implementation of the open door policy, China and Sweden have established a good foundation for economic cooperation. In September of 1982 the two countries established the first joint venture, the Hua-Rui [China-Sweden] Pharmaceuticals Co, Ltd. This first joint venture between China and Sweden has given impetus to the establishment of more joint ventures between the two countries in the future. Both sides currently are exploring possibilities for new joint projects, such as the Beijing alloy heating wire-drawing production project. The two countries are also making encouraging progress in the area of joint production. Sweden's AKA Corp and the Beijing Instrument and Meter Plant have concluded a joint production contract for an electric optical range finder. The two countries have also concluded five compensatory trade contracts. We are pleased to observe

that technical renovation of existing enterprises on both sides is also proceeding apace. In the latter part of last year the Sandvik Corp of Sweden and the Zhuzhou Hardened Alloy Corp concluded one such technical renovation contract whereby Sweden will supply advanced technology and equipment. Although things are just getting under way in this area, we are off to a very good start, and the future of Chinese-Swedish economic cooperation is very bright.

Significant accomplishments have also been recorded in the area of personnel training. Relevant Swedish sectors have trained Chinese personnel in maintenance service management, quality control, applied management, project administration, and so on. The class in Chinese-Swedish management and administration studies recently held in Beijing is another form of personnel training. Currently there are more than 100 Chinese college and graduate students studying in Sweden who have received every kind of convenience from their hosts. In short, personnel training has advanced mutual understanding and has contributed significantly to the future expansion of Chinese-Swedish economic and trade cooperation.

Sweden is a developed and technologically advanced country that enjoys an outstanding international reputation particularly in the areas of metallurgy, paper making, communications, power transmission, automobile manufacturing, ball bearings, and mine equipment. China's territory is vast and her natural resources are abundant; she is rich in manpower and her market is huge. Both countries stand to benefit from capitalizing on one another's respective advantages, building on strengths and minimizing weaknesses, and strengthening economic and trade cooperation. In fact, both countries wish to expand economic and trade relations and have already recorded much experience. Nonetheless, the current volume of trade between China and Sweden still is not large. From China's point of view, along with the development of economic laws and regulations, the mix and the quality of China's exports will gradually improve, and economic and trade relations between China and Sweden will also gradually expand. From Sweden's perspective, following her government's gradual relaxation of trade restrictions placed on Chinese exports and the enhancement of Swedish products' competitiveness, they believe that through the united effort of both countries, their economic and trade relations will definitely be capable of gradual development. And the sphere of economic cooperation between the two will also expand even more.

12681

CSO: 4006/148

## FOREIGN TRADE AND INVESTMENT

### OPEN-DOOR POLICY AS CONSIDERED ESSENTIAL TO ECONOMIC CONSTRUCTION

Beijing GUOJI MAOYI [INTERTRADE] in Chinese No 10, 27 Oct 84 pp 7-10

[Article by Wang Shouchun [3769 1108 2797]: "The Open-door Policy Is the Necessary Path for China's Economic Construction"]

[Text] The People's Republic of China was established 35 years ago. In 35 years, the development of China's foreign economic trade has passed through a tortuous path and has made glorious accomplishments. In looking back on the past and ahead to the future, we firmly believe that the open-door policy is the necessary path for China's economic construction.

#### I. The Open-door Policy Correctly Reflects the Objective Law of Economic Development.

The open-door policy came into being around the time of the 3d Plenum of the 11th CPC Central Committee. On the basis of summarizing our historical experiences since the founding of the country and according to the objective law of economic development, after earnest study we made a significant policy decision. With regard to economics, in implementing the open-door policy we must break through the backward thinking of closing the country to international intercourse and sticking to conventions, abandon the natural economic viewpoint of self-sufficiency and, on the basis of being supportive, and acting independently and with the initiative in our own hands and being self-reliant, adhere to the principle of equality and mutual benefit, actively develop foreign economic technical exchange, expand foreign trade, import advanced technology and use as much as possible whatever foreign funds we can. We can thereby develop different forms of international technological cooperation, make use of the strengths of each country for our own ends and cause our undertaking in socialist modernization and construction to develop even faster.

China must carry out socialist modernization and construction, and there are two paths that it can choose: it can close itself to international intercourse or it can open up to the outside world. The experience of China and the rest of the world provides ample proof that closing a country to the outside world does not create a modernized nation and that all countries that have attained modernization are implementing the open-door policy. Therefore, the CPC Central Committee decided to implement the open-door policy and expand foreign trade, and this was an extremely wise choice.

First of all, international trade relations that are continually expanding are a necessary result of the development of man's social productive forces and are an objective process of the internationalization of production and exchange activities. With the continual improvement of social productive forces, socialized large production is already unable to satisfy a domestic market that seems to be narrow and small, and we must go beyond our borders to look for a foreign market. As Marx and Engels pointed out: "Because the world market opened up, the production and consumption of all nations became international in nature. In that situation of local and national self-sufficiency and after closing the country to international intercourse, mutual connections among all nationalities in every respect and mutual dependence in every respect were displaced." Especially since World War II, because of the new developments of the scientific and technological revolution, the process of the internationalization of production and exchange activities was further promoted, and this greatly increased intercourse and interdependence between all countries. This objectively has provided a possibility and has forced developing nations to use this deepening "intercourse and interdependence" and, through different paths and forms, to absorb the technology and accumulate the experience which advanced countries have created over a long period of time, thereby in a fairly short period of time completing the journey that advanced countries have made. China's open-door policy reflects the objective demands and necessary trend of this historical development.

Second, the internationalization of man's social production and exchange as well as the ever-developing and deepening process has proven that the economic construction of one nation must be studied as it relates to its international relationships. As Marx pointed out, we must study the "international relationship of production." Based on this viewpoint, when carrying out production and modernization construction, China must proceed from its actual circumstances and expand its field of vision from a domestic to an international scope. Not only must China use all the strengths under the sun to bolster its shortcomings. As the CPC Central Committee pointed out, China's socialist modernization and construction must use two different resources--domestic resources and foreign resources-- must open up two markets--the domestic market and the international market--and must master two capabilities--the capability of organizing domestic construction and the capability of organizing foreign economic relations. That is to say, the resources, funds, technology, markets, labor and other factors needed for China's modernization construction must be planned, calculated and arranged from an international point of view. Thus, taking our undertaking of developing our foreign economic trade and raising it to the strategic position of accelerating the pace of the four modernizations are also the starting points for our realization of the open-door policy.

Third, under socialist conditions, accelerating socialist construction is also a problem of economic results. Every country, whether big or small, rich or poor, has its own strengths and cannot help having its own weaknesses as well. Thus, there is a great disparity between production and labor time and cost that a product needs, and the cost of social labor must be saved through international exchange. This improves a nation's productivity, thereby allowing it to gain the greatest economic results. This also makes it extremely necessary to implement the open-door policy.

Furthermore, we must have funds and technology in carrying out economic construction. Funds are a necessary condition for expanding reproduction and carrying out economic construction. The amount of funds determines the scale of economic construction, and we must have a large amount of funds to carry out modern economic construction. Yet at present China's economy is still fairly backward, funds are still in short supply and this has limited China's economic construction. We must positively and steadily use foreign capital in order to break through these limitations. Lenin pointed out: "In these times, when our economy is still extremely weak, how can we accelerate economic development? We must use the capital of the bourgeoisie." China must use as much foreign capital as possible so as to enable its construction to be carried out on an even greater scale. Technology is another important condition for carrying out economic construction. In order to carry out modern economic construction, we must use advanced technical equipment to equip and transform the industrial, agricultural and other material production departments. Currently, the technical equipment of China's industry is approximately 20 years behind the equipment of the economically advanced nations, and the disparity with regard to agriculture is even greater. If we ourselves close our doors to the outside, fumble around and take the old road of other countries toward scientific and technological advances, we will forever be crawling behind others and it will be difficult to realize the four modernizations. We need only to import advanced technology and cause our economic construction to start to move forward on the basis of advanced technology, and then we can reduce as quickly as possible the gaps between our country and the technologically advanced nations and enter into the ranks of the modernized nations.

In short, China should proceed from reality in implementing the open-door policy, consciously use the objective laws of economic development and open up a wide road for accelerating socialist modernization and construction.

It must be pointed out that there are fundamental differences between China's implementation of the open-door policy and the "Open Door" policy of the old China. The old so-called "Open Door" policy was the slogan which the U.S. government used in 1899 to carry out aggression in China in accord with the privileges enjoyed by England, Russia, Germany, Japan, Italy and France. Its most important element was that the United States recognized the "friendly jurisdiction" of the big powers in China, after which the United States then wanted treatment equal to what was achieved under this "friendly jurisdiction." In fact, the United States wanted to open wide the gates of China to all imperialist nations and have China comply with the wanton aggression and expansion of imperialist nations. This slogan became the joint policy of all imperialist countries in joining together to plunder and trample on China. But our current open-door policy is being carried out according to the principle of equality and mutual benefit and on the basis of self-reliance and acting independently and with initiative, and it has strong vitality. This is also a great contribution toward the theory of Marx and Lenin concerning foreign economic relations.

## II. Our History Before the 3d Plenum of the 11th CPC Central Committee Proves That It Is Difficult To Realize the Four Modernizations Without Implementing the Open-door Policy.

After 1949, we did not propose an open-door policy, and this is because we did not possess the conditions at that time. Deng Xiaoping pointed out in "Raise High the Banner of Mao Zedong Thought, Uphold the Theory of Seeking the Truth from Facts": "For example, when Mao Zedong was living, we also thought about expanding economic and technical exchanges between China and foreign countries, including developing trade relations with a few capitalist countries, even importing foreign capital, engaging in joint ventures, etc. However, the conditions did not exist at that time and people blocked us. Later, as far as the 'gang of four' was concerned, this was all 'worshiping and having blind faith in foreign things' and 'national betrayal,' and they completely cut us off from the world." It is clear that we never proposed the open-door policy not because we would rather have closed the country to international intercourse but because of objective and subjective reasons.

First, the United States, the world's foremost capitalist country, for some time was hostile toward us and it carried out an embargo of our country. The result was that it caused Sino-American trade to drop from \$245 million on the eve of Liberation in 1948 to \$50,000 in 1952, and in 1954 trade was completely severed. Sino-British trade decreased from \$43 million in 1948 to \$25.81 million in 1952, and Sino-Japanese trade dropped from \$22.9 million to \$4.4 million.

Second, starting in the 1960's, the Soviet Union tore up our economic contracts. This caused a great decrease in economic relations between the Soviet Union along with a few other countries and China. Sino-Soviet trade dropped from its post-liberation high of \$2.097 billion in 1959 to \$47.23 million in 1970, and the proportion of our total imports and exports that this constituted dropped from 47.9 percent to 1 percent. Trade with a few other countries also dropped by varying degrees.

Third, during the "Great Proletarian Cultural Revolution," China's foreign trade was seriously disrupted and attacked by the Lin Biao-Jiang Qing counterrevolutionary clique. They slandered work in foreign trade as a "Westernization movement"; they attacked exports as "selling out our resources" and "surrendering and betraying the country"; and they attacked the importation of technology as a "slavish comprador philosophy" and "crawling." In fact, they wanted to eliminate foreign trade. At the same time, they also recklessly distorted the policy of self-reliance, and they equated it with closing the country to international intercourse and with self-sufficiency. They felt that if we imported few things, then we would be self-reliant, and if we imported many things, then we would not be self-reliant. This type of thinking caused us to be cut off from the rest of the world.

Furthermore, because China was a feudalistic society for such a long time, not only did the natural economy hold a controlling position, but the small-scale peasant economy ideology that it left behind was also deeply ingrained in and constrained people's minds for a long time; they were accustomed to regarding

envisioning large-scale socialist production from the viewpoint of the self-sufficient economy of a feudal manor. Thus, in the past, the role of foreign trade stressed "each making up the other's deficiency from his own surplus"; technologically, we "caught up to and surpassed" by closing the door; with regard to the state's finances, we stressed "neither domestic debts nor foreign debts"; and concerning foreign economic and political relations, we one-sidedly stressed politics first, and we did not pay attention to economic results. We considered the use of funds from Western capitalist nations and enterprises to develop cooperation with foreigners to be forbidden. This restricted the development of our foreign trade to different degrees.

Because of the many different reasons mentioned above, before the 3d Plenum of the 11th CPC Central Committee, we never proposed an open-door policy, and our foreign trade never developed. We almost never used any foreign capital, and the forms for developing foreign trade were mainly confined to foreign trade and foreign assistance. With regard to foreign trade, in 1978 our imports totaled \$20.64 billion, a 17.3-fold increase compared to \$1.13 billion in 1950. This includes exports totaling \$9.75 billion in 1978, a 16.5-fold increase compared to \$550 million in 1950. Yet China lags behind the rest of the world in the rate of development: China's share of total world exports decreased from 0.91 percent in 1950 to 0.75 percent in 1978, and from 28th place to 32d place in rank. Not only is this lower than the economically advanced nations, but it is lower than such countries and regions as Singapore and Hong Kong. China's export commodity structure is also extremely backward: in 1978, primary products constituted 53.5 percent of all exports and industrial manufactured goods constituted 46.5 percent, and of this 46.5 percent, light industrial products and textile goods constituted 36.1 percent and heavy industrial products and chemical products constituted 10.4 percent. China does not export 40 of the 100 commodities that have the highest volume of exports in the world today, and this is not at all suited to China's need to accelerate the four modernizations.

At this time, China has not utilized foreign trade fully in its economic construction, and especially during the "great cultural revolution," it ignored foreign markets, ran a self-sufficient cycle and affected the development of the economy. For example, before the cultural revolution, our engineering industry developed at a level that at that time was much higher than that of Third World nations and regions: in 1965 China's machinery exports were worth \$166 million, and in India, Brazil, Singapore and other countries, the amount did not exceed a few tens of billions of dollars. Yet during the 10 years of chaos, we did not use the foreign market, we did not strive to import technology to develop the engineering industry and by 1978 we had basically come to a standstill. Exported products were worth \$300 million, only double the total in 1965. But during the same period, Spain, Brazil, Singapore and other countries fully utilized the international market, and their engineering industries greatly developed; in 1978 the volume of their products exported totaled \$1-2 billion, a more than 10-fold increase, and they greatly exceeded China's increase. It is obvious that whether or not we utilize the international market has a great effect on the rate of economic development. We need only to utilize the domestic and international market fully and to change from a single self-sufficient cycle to a domestic/foreign double cycle, and then we can promote an outstanding cycle of the entire economy and accelerate the four modernizations.

History before the 3d Plenum of the 11th CPC Central Committee proves that if we do not implement the open-door policy, it will be difficult for us to realize socialist modernization and construction.

III. Our Experience After the 3d Plenum of the 11th CPC Central Committee Proves That We Need Only To Implement the Open-door Policy To Be Able To Accelerate the Realization of the Four Modernizations.

The 3d Plenum of the 11th CPC Central Committee proposed the open-door policy, and at the time we already possessed the right conditions. In foreign affairs, we had already concluded a Sino-Japanese treaty of friendship and peace, had completed negotiations for normalizing Sino-American relations and had also achieved significant results in establishing friendly relations with all the nations of the world. Domestically, we had won a great victory in exposing the Lin Biao-Jiang Qing counterrevolutionary clique, and a stable and unified political situation appeared throughout the nation, an important guarantee for developing foreign trade. Thus, China's foreign trade entered a new era of development.

Guided by the open-door policy, we confirmed in theory the importance of the international division of labor and the significance of China's taking part in the international division of labor; we corrected our understanding of self-reliance; we corrected the relationship between economics and politics and between foreign trade and foreign exchange; we raised foreign trade to a strategic position; we changed our position from refusing foreign debts to actively and effectively using foreign capital; we changed from stressing the need to have a slight trade surplus to permitting a slight trade deficit; we broke through the forbidden zone of developing foreign work cooperation; we ran special economic zones; we adopted many flexible trade methods, including things we never tried before such as the importation of materials for processing and assembly, compensatory trade, joint ventures, cooperative production and renting; in technology we started the commission sales of spare parts, repair services and other businesses; and we started to go out and do business. We also engaged in the preliminary restructuring of the foreign trade system, and we combined industry and trade and technology and trade and separated the government from enterprises. We changed the past situation of foreign trade being independently run, aroused the enthusiasm of all regions, departments and enterprises and further stimulated foreign trade.

Since the 3d Plenum of the 11th CPC Central Committee, China's foreign trade has developed significantly. In 1983, China's volume of imports and exports totaled \$40.7 billion, nearly double what it was before the Third Plenum in 1978. Of this, exports totaled \$22.2 billion, a 1.3 percent increase compared to 1978 and an average yearly increase of 17.9 percent, higher than the 7.9 percent increase of gross national industrial and agricultural output value for the same period and also higher than the average yearly rate of increase of world exports for the same period. China's share of total world exports rose from 0.75 percent in 1978 to 1.25 percent, and China rose in the ranks of world exporters from 32nd place to 28th place; this improved China's position and role in world trade. China's exports as a proportion of its national revenue increased from 6.6 percent in 1978 to approximately 12 percent; this also further improved the position and role of trade in our national economy.



In 1978, China was only second to Japan as the largest exporter to Hong Kong. In 1982 and 1983, China passed Japan and resumed its leading position as an exporter of commodities to Hong Kong.

In the 5 years from 1979 to 1983, China imported a total of \$20.7 billion worth of technology and equipment and exceeded the total amount of imports in the 29 years before the Third Plenum. Of this amount, in 1983 China imported \$3.25 billion worth of advanced technology and equipment, a 71 percent increase compared to 1978. In 1978, there were still forbidden areas for using foreign capital, but by 1983 China had already used \$14.5 billion in foreign capital including \$11.9 billion in loans and \$2.6 billion in direct investments that were actually attracted, and in 5 years, 188 Sino-foreign joint ventures were approved. In 1979, projects contracted by foreigners and work cooperation projects got underway, and by the end of 1983 we had already signed 1,279 contracts worth \$2.24 billion; this includes \$940 million worth of business and 33,000 people abroad. We also started running four special economic zones on a trial basis, etc. This fully reflects how absolutely correct China is in implementing the open-door policy.

During this period, China's foreign trade has played an important and positive role in China's modern economic construction, and the establishment of China's ocean petroleum industry after the Third Plenum is one example. As we all know, ocean petroleum is a huge project that requires a vast amount of funds and advanced technology, and it would be difficult to establish this industry merely by depending on our own funds and technology. We adopted the form of international cooperation, engaged in cooperative prospecting and development with more than 10 countries one after the other and, by the end of 1983, had already used \$740 million in foreign capital, imported large amounts of advanced technology and are already beginning to see preliminary results. We have a complete understanding of the geographical conditions of the South China Sea and the southern region of the Yellow Sea. We have already set up deepwater wells in the Bohai, the Gulf of Tonkin and the Yingge Hai, and 20 wells have pumped oil, of which there are four 1,000-ton wells and a Japanese-produced 1.2 million-cubic-meter natural gas well. At the same time, the development of foreign cooperation in ocean petroleum has also promoted the development of machinery, aviation, shipping, construction, sea projects and other undertakings. These are the rich fruits we have reaped in implementing the open-door policy.

Our experiences since the 3d Plenum of the 11th CPC Central Committee have proved incontrovertibly that if we only implement the open-door policy, actively develop foreign trade and give play to its deservedly important role, we can then accelerate the progress of China's undertaking in socialist modernization and construction. As Premier Zhao Ziyang pointed out in the "Government Work Report" of the Second Session of the Sixth National People's Congress: "The open-door policy is a correct policy that corresponds with our actual circumstances, and we must unswervingly implement it."

12437

CSO: 4006/155

## FOREIGN TRADE AND INVESTMENT

### DANISH FOREIGN MINISTER TO LEAD TRADE DELEGATION TO COUNTRY

Copenhagen BERLINGSKE TIDENDE in Danish 11 Jan 85 Sect III p 7

[Text] The Chinese market contains so many opportunities for Danish industry that between 30 and 35 firms will participate in an industry delegation to China in April, with Foreign Minister Uffe Ellemann-Jensen (Liberal Party) in the lead.

#### Significant Chinese Interest

"China has shown significant interest in Denmark over the last few years, and it is worthy of note that there have been several provincial governors carrying out visits," said Department Head Vagn Jensen of the Grocers' Organization.

The Foreign Minister has been invited to China in connection with the 35th anniversary of the establishment of diplomatic relations with China, and Ellemann-Jensen will act as leader of the industry delegation.

In Peking he will carry on discussions and conversations with the heads of the Grocers' Organization and the Industrial Council, who are arranging the activities. They will meet with the ministers of foreign trade, industry and commerce, and possibly also with the agricultural minister.

The representatives from the Danish firms will travel around in two delegations, one in North China and the other in South China.

The Chinese are especially interested in Danish industry, including light industry, agriculture, public health and systems export.

It is intended that this will be the largest Danish industry delegation ever to visit China, which has opened its doors significantly over the past few years. But as a China expert, Director Steen Pedersen of S. T. Nissen A/S has expressed matters thusly: Danish firms should not count on a net profit in the first three years in China. But if they demonstrate seriousness regarding their projects, there are good opportunities in the Chinese market.

In 1983, we exported [goods and services] amounting to 700 million kroner to China and imported [goods and services] amounting to one billion kroner.

CSO: 3613/80

FOREIGN TRADE AND INVESTMENT

SOFIA DAILY CRITICIZES ECONOMIC REFORM

Sofia KOOPERATIVNO SELO in Bulgarian 12 Dec 84 p 3

[Article by Zakhari Zakhariev: "China: Where Is the New Economic Reform Leading?"]

[Text] The recently announced general reform of the economic structure in China encompasses economics, trade, science, and culture. The main subject of the new reforms is urban economics. "Now the focus of the reform will be shifted from the village areas to the cities," the Chinese press says. In this sense, the reform is seen as a natural extension of the economic reforms carried out in Chinese agriculture in the last 5-6 years.

Chinese Socialism

Two aspects of the structural reforms we will see in Chinese economics in the next 5 years evoke special interest. On the one hand, the new reforms could be seen as an admission of the failure of the left-wing platform, which found its most visible expression in the policy of the Great Leap Forward, the people's communes, and the Cultural Revolution. On the other hand, it is a substantial element of the new economic policy, which strengthens open market trade, stimulates the private sector, and attracts foreign capital investments.

What the former and present policies have in common is the unity of the pretension, then as now, of building a particularly Chinese socialism. China today is carrying out reforms in order to follow a path to socialism "with a Chinese face," writes the well-known economist Xue Muqiao. As seen in the official speeches on the occasion of the 35th anniversary of the founding of the Chinese People's Republic, "We will create, with this reform, an economic system with 'Chinese features.'" The only difference is that while formerly the Chinese specifics led to egalitarianism and idealizing the general poverty, now socialism with the Chinese face is not seen as a synonym for poverty, but is even viewed as a call to get richer. In China now the slogan "Time is money" is again fashionable.

Recently the Chinese press and the pronouncements of political leaders and economists have addressed the utilization of capitalist methods of management and leadership more and more often. Under the cover of taking on everything

that is useful in capitalism, certain Chinese economists have taken the strange position that "capitalism must serve socialism." This political philosophy finds concrete expression in the widely popularized concept of "one country with two systems." An immediate result of this policy is the creation of "special economic zones," where certain special privileges are created for foreign capital. In its efforts to create the preconditions for attracting the greatest amount of foreign investment possible, Beijing is making excessively great concessions to capitalist firms. Essentially China is agreeing to create regions within its territory which have a non-socialist structure. This is the statute for the 14 "special economic zones" already opened up, and to which a number of large port cities have recently been added.

There exists a direct link between the general reform announced for the economic structure and the open door policy which has been conducted. In the words of Zhao Ziyang, the economic reform now being put in place will serve as a stimulus for the open door policy. There is no doubt in this case that we are talking about inevitable compromises with the private sector and corresponding compromises with foreign capital in the so-called special economic zones, in which the market and the capitalist economic forms are developed without limitations.

#### The Beginnings of a Market for Capital

Borrowing elements from the capitalist economic mechanism is not all that we see in the totality of the special economic zones. They find partial application in various sectors of the economy and in other regions of the country. Because of the reforms announced, curious facts and commentaries have appeared in the press there, which reveal certain new tendencies in economic life in China. For example, the changes that have occurred in the villages in the last few years have provided the foundation for certain observers to reach the conclusion that a peculiar "decollectivization" is being introduced into Chinese agriculture. The foundations for such conclusions are seen in a number of directives, which have actually led to the denigration of communes and to the return of land to individual families to work for lengthy periods of time. In accordance with the new directives, the agricultural families may make agreements about the use of specified parcels of land for up to 15 years or more. This leads to the almost total liquidation of collective farming. As a result of the new policy, individual villagers have acquired excessively large assets. Reports have come through to the foreign press that certain villagers are buying expensive equipment and earning fabulous sums. Despite how strange it sounds, the press has reported on villagers who have purchased an airplane with their own money for agricultural activity. Information has appeared about the owner of a bus who competes with public transportation and about other phenomena of a similar nature. Although it sounds anecdotal, these cases give witness to the excessive vitality of the private sector in Chinese agriculture, where the reforms have been carried out intensively in the last few years.

We are already observing the beginnings of private enterprise, primarily in the handicrafts. There was a report in the press about the owner of a

workshop that produces glass cotton. A total of 300 people work under him, all relatives of his, because now only members of the family can work in a private enterprise. Reports have appeared that individual firms are already selling shares with the right of ownership. Commenting on this economic pragmatism, the West German press writes that the beginnings all in place for a capital market.

It is difficult to say now what the results of the reforms announced will be. But the assumptions of the mayor of Shanghai are not to be ignored. He feels that, as a result of the policy of one country with two systems, a new economic structure could be formed in that nation.

The reforms of course evoke definite disagreement within Chinese society. As RENMIN RIBAO writes, "The people are waiting impatiently for the theoreticians to explain how the economic reform will be combined with Marxism and if they are not a serious step in the direction of capitalism."

12334

CSO: 2200/99

FOREIGN TRADE AND INVESTMENT

AGREEMENT REACHED WITH SWEDES ON MINING TECHNOLOGY TRANSFER

Stockholm DAGENS NYHETER in Swedish 12 Jan 85 p 10

/Article by Caj Nore'n/

/Text/ The University of Lulea, Boliden and Atlas Copco have reached an agreement with a state-owned Chinese mining firm valued at 35 million kronor. The agreement stipulates that China will buy know-how and equipment from Sweden in order to double the production of the country's largest nickel mine in Yinchuan.

At the same time, the researchers in Lulea will have a new "research mine" after the one is closed down in Kiruna next summer. The nickel discovery in Yinchuan is among the largest in the world. Altogether, 1,500 persons work in the mine dig under the earth. All the production will go to the Chinese steel industry.

However, the Chinese Government mining firm for the mining of non-ferrous metals now states that new technology is needed to reach the goal of quadrupling production by the year 1990.

According to the agreement, Boliden WP Contech will sell the mining technology which currently is adapted to the mine in Garpenberg, and Atlas Copco will sell drilling machinery to the Yinchuan Mine which is situated in the northeastern /sic/ part of China.

For the University of Lulea and its foundation, Centek, the agreement signifies an international breakthrough: It is the largest consulting assignment concerning the sale of know-how that any Swedish university has ever received, comments Stefan Dahlhielm, consultant at Centek.

Of the 35 million kronor, training and consultant aid make up about half. Fifteen Chinese technicians will be trained in mining and metallurgical mechanics at the University of Lulea, as well as at Boliden and Atlas Copco.

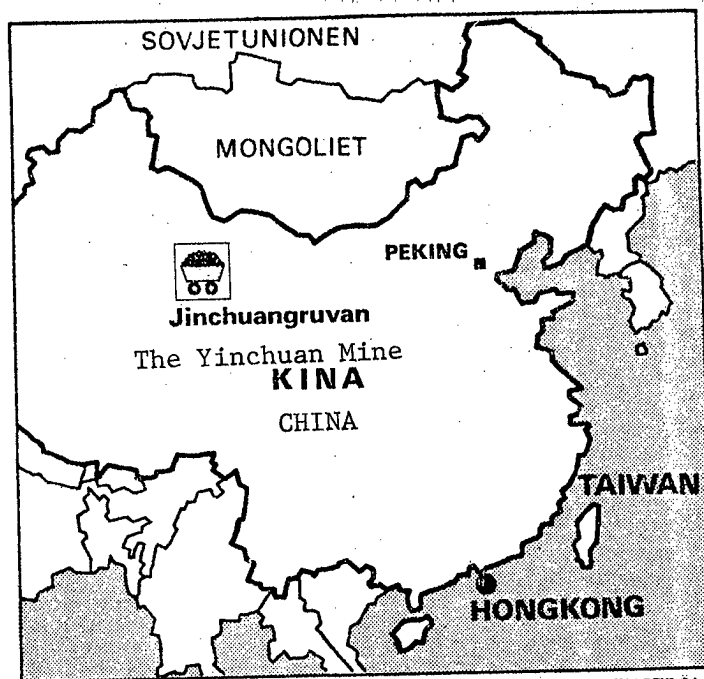
Ove Stefansson, Professor of Mining and Metallurgy at the University of Lulea, is taking part in the project. He maintains that the knowledge which the technicians have received at the research mine in

Kiruna can now be used directly in the nickel mine: "Today we have a leading position in the world in terms of mining and metallurgical mechanics and systematic solutions in mining."

The Yinchuan Mine is still a more difficult challenge than the research mine in Kiruna, because there are difficult strength problems involved with the soft types of rock. Therefore, in this nickel mine a small scale mining technique is required with so-called reapplied mining in contrast to the large scale mining applied in the research mine in Luossavaara.

The University of Lulea has had comprehensive cooperation with China for a number of years. Up until now, 40 Chinese students have studied in Lulea and four of them have taken doctorates.

"Centek" means "Foundation for Technology-Based Business Development at the University of Lulea."



Karta: KENT ENSTRÖM

*Kina ska köpa kunnande och utrustning från Sverige till sin nickelgruva i Jinchuan i västra Kina.*

China is going to buy know-how and equipment from Sweden for its nickel mine in Yinchuan in western China.

12562  
CSO: 3650/130

FOREIGN TRADE AND INVESTMENT

BRIEFS

BUREAUCRATIC BOTTLENECK IN IMPORTING TRUCKS--The PRC will need more than 500,000 trucks of all sizes this year to keep pace with the rapid development of its industry and agriculture, was the assessment of John Wong, director of Toyota Motor Service [China] Ltd, recently in Peking. Yet despite the seriousness of this shortfall, bureaucratic restrictions still pose a handicap for imports and each Import Corporation is limited to a specific import quota for trucks. The extraordinarily high import tariff of 120 to 200 percent also generates other difficulties. In addition, conditions on China's rural road net are the cause of substantial maintenance costs for owners and drivers. The director general of China Toyota, Sidney Suen, estimated that his firm had sold some 1,000 vehicles per month to China during 1984 by way of Hong Kong. This figure does not include an additional 20,000 trucks shipped directly from Japan. Some 80 percent of these were light and medium commercial vehicles such as are used primarily by the communes, the remainder being heavy trucks and passenger vehicles, though only a limited number of the latter. [Frankfurt/Main FRANKFURTER ZEITUNG/BLICK DURCH DIE WIRTSCHAFT in German 4 Feb 85 p 2]

CSO: 3620/265



TRANSPORTATION

CHANNEL IN NEI MONGGOL PUT BACK INTO USE

OW310304 Beijing XINHUA in English 0240 GMT 31 Jan 85

[Text] Hohhot, 31 Jan (XINHUA)--A Yellow River navigation channel which has not been used for many years will be dredged and put into service again in Inner Mongolia, according to an official in charge of the project. The project, which will cost 37 million yuan, is scheduled for completion in 1990.

A 794-kilometer section of the Yellow River in Inner Mongolia has not been used for transport since the Baotou-Lanzhou Railway went into service in the 1950's also because of poor design of some large water conservancy projects in the vicinity, the section has become silt laden.

Completion of the project and opening of river transport will facilitate the construction of Inner Mongolia's Jungar open-cut coal mine which has the largest reserves of any coal mine in China. It will also expedite movement of goods, such as coal, coke, building materials out of the region.

Dredging will be done on a 232 kilometer section from Baotou to Lama Bay this year, the official said. Dangerous shoals will be blasted out of the channel and navigation marks will be installed. A ship lock will be built on the dam of one of the water conservancy projects and docking facilities will also be constructed.

CSO: 4020/108

TRANSPORTATION

NEW REGULATIONS TO SPEED CARGO HANDLING

OW010902 Beijing XINHUA in English 0839 GMT 1 Feb 85

[Text] Beijing, 1 Feb (XINHUA)--Tough new measures aimed at speeding cargo shipment at Chinese ports as domestic and foreign trade grows came into effect today.

The strain at the Chinese ports cannot be alleviated completely in the near future, according to the preamble to the regulations issued by the State Council General Office.

The ECONOMIC DAILY said in a commentary today that an effective way to eliminate delays of cargo shipment at ports was to institute the responsibility system, which links payment with workers' productivity.

Once the system is introduced at all levels, China's port handling capacity could jump by at least 30 percent this year, the paper quoted two officials at the ports of Dalian and Qingdao as saying.

Chinese ports handled 11.7 percent more cargo in 1984 than in the previous year. The State Council regulations call for better planning in handling exports and imports and faster transport of cargo from ports by trucks, trains or ships.

A fine of 1 yuan per ton will be imposed on any cargo not covered by the monthly plans of the Ministries of Railways, Communications and Foreign Economic Relations and Trade.

At the same time, companies and individuals making the best contributions towards speeding cargo transport from ports will be rewarded, say the regulations.

CSO: 4020/108

## TRANSPORTATION

### CACC OUTLINES AIRCRAFT PROCUREMENT PLANS

OW041702 Beijing XINHUA in English 1439 GMT 4 Feb 85

[Text] Beijing, 4 Feb (XINHUA)--China's flag carrier CAAC is negotiating with the U.S. Boeing Company for 747's, 767's and 737's.

This was disclosed here today by CAAC (Civil Aviation Administration of China) Director General Shen Tu. Current legislation will control air services, he added.

"Experts," he said, "will be employed to help improve China's air services, raise profits and ensure flight safety. The next three years will witness a big boom in China's civil aviation, relieving overstrained services on both domestic and international routes."

CAAC is also negotiating purchases from British Aerospace, European Airbus Industry and other makers.

Aircraft China has bought from the United States, the Soviet Union, Britain and other European countries along with computers, telecommunications and radar facilities will go into service this year and next.

"We now have two jobs to do," said Shen. "The first is to speed up transformation of CAAC's present system and establish airline companies. The second is to buy more planes and expand air services to meet growing needs."

The government has given permission to establish five airline companies: China Airways, East China Airways, South China Airways, the Xinjiang Airline Company and Xiamen Airlines, Ltd.

CAAC says three other companies--the Southwest China Airline Company, the Northwest China Airline Company and the Northeast China Airline Company will be established in the near future.

CSO: 4020/108

TRANSPORTATION

BRIEFS

NEW CORPORATION TO COMPUTERIZE RAILWAYS--The computerization of China's railroad system took a step forward yesterday with the opening of a new joint venture between the Ministry of Railways and the China International Trust and Investment Corporation (CITIC). The new partnership, called China Electronics and Communications, Inc, will begin with a joint investment of 8 million yuan. CITIC holds 20 percent of the shares and the Railways Ministry 80 percent. The company will provide computers to railway departments in order to expand automatic control systems in the system. CITIC will purchase computers from the United States, a CITIC official said. A microcomputer installation company will be established in 2 or 3 years to offer consulting services to the ministry. Technical personnel will be trained at a company training center and abroad. The company will also manufacture computers and other electronic components. [Text] [Beijing CHINA DAILY in English 1 Feb 85 p 2]

JINING-TONGLIAO RAILWAY LINE--The Ministry of Railways will join forces with Inner Mongolia to build an 850-kilometre local railway there, the newspaper ECONOMIC INFORMATION reports. The new line will run from Jining, near the border between Inner Mongolia and Hebei Province, to Tongliao, which borders Liaoning Province. The newspaper said the new railway will be the longest local line outside the national railway network. Design work is expected to be completed this year, with construction to begin soon after. [Text] [Beijing CHINA DAILY in English 1 Feb 85 p 2]

NORTHERN XINJIANG RAILWAY CONSTRUCTION--Urumqi, 2 Feb (XINHUA)--Construction of a railway line between Urumqi, capital of Xinjiang Uygur Autonomous Region and Usu, a town on the southern fringe of the region's Junggar Basin, will start in May. The 246-kilometer northern Xinjiang railway will be completed in 1988. This was announced today by Qi Guo, chairman of the Northern Xinjiang Railway Corporation, who is also secretary of the Regional Communist Party Committee. The corporation is jointly run by the autonomous region and the Ministry of Railways. [Text] [Beijing XINHUA in English 1515 GMT 2 Feb 85]

SHANGHAI CARGO HANDLING--Shanghai, 5 Feb (XINHUA)--Shanghai, China's largest port, handled 2.81 million tons of import and export goods in January, 55 percent more than in the same month in 1984, port authorities said. A total

of 9.5 million tons of cargo were handled last month, up 23 percent. The port loaded and unloaded 277 ships carrying foreign trade goods in January, averaging 9 daily. With 96 berths, Shanghai handles about one-third of the country's port cargo. With over 100 million tons of freight handled last year, it became one of the 10 largest ports in the world. [Text] [Beijing XINHUA in English 1608 GMT 5 Feb 85 OW]

BEIJING-HOHHOT BUS SERVICE--Hohhot, 5 Feb (XINHUA)--A new bus service between Beijing and Hohhot, capital of Inner Mongolia Autonomous Region, went into service this month. A bus will run in each direction over the 600-kilometer route everyday, through parts of Hebei and Shanxi Provinces. The service will help ease the pressure on the railways. [Text] [Beijing XINHUA in English 0719 GMT 5 Feb 85 OW]

CSO: 4020/108

HONG KONG MEDIA ON CHINA

ACHIEVEMENTS OF CHINA'S OPEN DOOR POLICY DISCUSSED

Hong Kong JINGJI DAOBAO in Chinese No 46, 19 Nov 84 pp 16-17

[Article by Ji Chongwei [1323 1504 1218]: "China's Achievements Since Opening to the Outside World Five Years Ago"]

[Text] It has been nearly 5 years to date since the Chinese Government decided on its national policy of opening to the outside world. Recently Premier Zhao Ziyang suggested that "We should sum up even better the experience and lessons learned in opening to the outside world and carrying on economic and technical exchanges in recent years so as to greatly push this work forward both in depth and in magnitude during the Seventh 5-Year Plan period." Looking back on China's practice in opening to the outside world during the past several years, it can be said that notable results have been achieved in the main in the following seven areas:

1. It has expanded foreign trade, promoted production and circulation, enlivened the national economy, increased the foreign exchange reserve and controlled the initiative in foreign economic and trade work.

Over the past several years, China has energetically expanded trade and developed multilateral economic relations with Western countries, the Soviet Union and the East European and developing countries under conditions of equality and mutual benefits.

We have not established trade contacts with 174 countries and regions in the world. China's total import and export trade in 1983 came to \$40.7 billion, nearly double that in 1978 or a 35-fold increase as compared with that in 1950. The total amount of export in 1983 was \$2.22 billion or an increase by 1.2 times over 1978 and its proportion in the world's total export rose from 0.75 percent in 1978 to 1.23 percent. China has jumped from 32d to 16th position in rank among the exporting countries in the world. The volume of import and export between January and September this year again increased by 9 percent and 12.6 percent, respectively, over the same period last year. Since 1981, China's export has exceeded import every year, the favorable balance of trade from 1981 to 1983 totaled \$9.4 billion, in addition to the surplus from nontrade foreign exchange revenue and expenditures, by July this year, China's foreign exchange reserve amounted to more than \$15 billion.

Most importantly is by expanding foreign trade and readjusting the mix of import and export commodities, we have helped promote the readjustment of our national economy and have moved toward a virtuous cycle in development. For example by importing over 10 million dun of grain annually in the previous several years we have reduced the amount of grain to be purchased from the peasants by the state. As a result, the peasants were able to rest and build up strength to expand the sown acreage of cotton, oil-bearing crops, sugar crops and tobacco and other industrial crops. In the end, while grain output increased, the output of cotton, oil-bearing crops, sugar crops, tobacco and other crops had also gone up gradually. Output has now achieved self-sufficiency with a surplus and the amount imported has been greatly reduced. As a result, the tremendous amount of foreign exchange which China used for importing these agricultural products several years ago can henceforth be used for purchasing technologies, equipment and for importing the essential raw materials.

2. By utilizing foreign capital it has opened up a new prospect and achieved fairly good results that helped China's economic readjustment, promoted construction of key energy and communications projects and the technical transformation of existing enterprises and absorbed some advanced technologies and experience of scientific management from abroad.

Absorbing capital funds from abroad for use in construction has been an important breakthrough in China's policy of opening to the outside world. From 1980 to the end of 1983, the grand total of foreign capital being used in various forms in China amounted approximately to \$14.6 billion, of which about \$12 billion in foreign loans actually used had mostly been repaid.

The absorption of foreign direct investment in China over the past several years has, since China's promulgation of the "Law Governing Enterprises of Joint Ventures with Chinese and Foreign Capital" in 1979, has determined the legal status of foreign capital to China and enterprises of joint ventures. In May 1980, the first joint venture with Chinese and foreign capital, the China Aviation Food Co, was established. After over 4 years of practice, the number of enterprises under joint ventures with Chinese and foreign capital, cooperative management and cooperative development and exclusive investment by foreign businessmen has increased from a very few to a great many and developed and grown from small to large size step by step. By the end of 1983, 243 items of various types of foreign investment had reached agreements drawing in foreign capital totaling \$6.86 billion. Of which, \$2.63 billion were actually used, by the end of June this year, the amount of investment committed in agreements came near to \$8 billion and \$3.32 billion were actually invested. Among them, (a) 362 enterprises of joint ventures with Chinese and foreign capital with foreign investment of \$530 million. During the first half of this year, 172 new contracts were signed or an increase of 81 percent as compared with the grand total of 184 at the end of last year; the amount of foreign capital involved came to \$216 million or an increase of 66 percent as compared

with the grand total of \$320 million by the end of last year. (b) There were 1,372 items under cooperative management with Chinese and foreign capital, drawing in \$3.48 billion in foreign capital. (c) There were 23 items under cooperative development (primarily petroleum prospecting and exploitation at sea drawing in \$2.42 billion in foreign capital. (d) There were 53 items under exclusive investment by foreign businessmen with an investment of \$385 million (primarily in Shenzhen Special Economic Zone). (e) There were 1,137 items of compensatory trade with foreign businessmen putting up \$870 million in capital. (f) Funds advanced by foreign businessmen for equipment for processing with materials provided amounted to \$280 million.

The foreign loans and investments mentioned above have been and are playing a bigger and bigger role in China's modernizations. They have supplemented the shortage of funds needed in China's construction and also initiated a certain number of important construction projects. They have also helped build a number of projects which were about to be postponed due to shortage of funds during the readjustment period. They have promoted China's petroleum prospecting and exploitation at sea. In addition, they have also promoted the technical transformation of old enterprises and raised their technical level and operational and management level to give the products the ability to compete in the international market.

3. Initial results have been achieved in importing foreign advanced technologies and with the importation growing in scale, it will certainly help raise China's scientific, technological and industrial level and produce rich results.

Prior to 1980, China's way of importing technology had laid particular stress on equipment import. The situation had changed after 1980, between 1980 and 1982, transaction on importing softwares totaled \$350 million, the amount had increased to \$570 million in 1983 and increased further to \$800 million during the first half of this year. The rapid expansion of the scale of importing technology has been attributed to the government's encouraging policies, such as foreign exchange credit and the settlement of account based on the Bank of China foreign exchange rate quotation.

The results achieved in importing technology are very outstanding. Take the electronics industry for instance, in the last 3 years several hundred enterprises imported advanced technologies and equipment from abroad totaling \$600 million, thus raising the technology as well as the quality and quantity of products of the Chinese electronics industry by leaps and bounce. Among them, the output of television sets and recorders has increased from 1.32 million and 160,000 units, respectively, in 1979 to 6.82 million and 4.81 million units, respectively, in 1983. With regard to the quality of television sets, the circular image is now of clear reception and the number of trouble-free hours has extended



from several hundred to 4,000 to 5,000 hours and over 10,000 hours for name-brand sets. The items on display at the international fairs in Czechoslovakia and Poland this year that interested the people most were the electronic products exhibited by China.

4. Achieving initial results in China's import of technology, the special economic zones have become a window to importing technology, management and intellectuals and the policy of opening to the outside world.

China established special economic zones one after the other in 1980 in Shenzhen, Zhuhai and Shantou of Guangdong and in Xiamen of Fujian, this has been a far-sighted important strategic policy decision since the opening policy was put into effect.

Since the subjective and objective conditions in these four special economic zones are different, the work progress and achievements also varied--take Shenzhen with the most changes for instance--the major achievements in the past 4 years are: (1) A small border town has been built into what is becoming a modernized new city within a short period of 4 years. (2) A large amount of foreign capital and advanced technology has been imported, by the end of March 1984, 697 agreements had been signed with foreign businessmen, of a total investment of \$1.8 billion under the agreements signed only more than \$400 million were actually used. A total of 54 enterprises under the joint ventures with Chinese and foreign capital, cooperative management and exclusive investment were built and put into operation, and 253 units (sets) of various types of more advanced equipment have been imported. (3) The economy has developed in a vigorous and all-round manner, a comparison between 1983 and 1978 shows that the total industrial output value was 11 times greater and the revenue receipts increased 16 times. The various economic targets in the 4 years after the establishment of the special economic zones surpassed the sum total in the previous 30 years. (4) The people's standard of living has been greatly improved and the local residents have enjoyed ample employment, the average annual wage in the state-operated enterprises in 1983 came to 1,571 yuan or 1.7 times greater than that in 1978, the average annual income for peasants amounted to 840 yuan. In the past some peasants abandoned their farmland and drifted to Hong Kong, now nearly 1,000 have returned to settle down.

5. Further opening up 14 coastal cities and Hainan Island.

In the light of the initial achievements and experience gained in Shenzhen and other special economic zones, Chairman Deng Xiaoping pointed out after inspecting the several special economic zones in January this year: "The development and experience of Shenzhen has proved that our policy of establishing the special economic zones is a correct one: and that "in establishing the special economic zones we must implement the policy of opening to the outside world and we must have a clear guiding principle, that is, opening wide, not restricting." Deng Xiaoping urged that "the special economic zones should be built faster and better" and suggested that "in addition to the existing special economic zones,

consideration should be given to open several more points and add several more port cities, those in remote areas will not be called special zones but certain policies for the special zones may be implemented there." In this connection, the State Council called a symposium of some of the coastal cities and decided to further open up 14 coastal port cities including Dalian, Qinhuangdao, Tianjin, Yantai, Qingdao, Lianyungang, Nantong, Shanghai, Ningbo, Wenzhou, Fuzhou, Guangzhou, Zhanjiang and Beihai, and Hainan Island.

The opening of these 14 cities had greatly inspired the enthusiasm and vigor of the local people's governments in pursuing the modernization drive and also aroused excellent response and attention internationally in recognition of China's concrete action in unswervingly implementing the opening policy. People from the enterprises and financial circles of various countries have flocked to these cities for inspection and talks about investment and cooperation. During the first half of this year, the number of newly signed items nationwide drawing in direct investment totaled 503 with investments by foreign businessmen amounting to more than \$510 million, more items are being negotiated, this signified an upsurge in absorbing foreign capital in recent years. Take Tianjin for example, a total of 19 contracts of joint ventures with Chinese and foreign capital was signed between January and August this year or 1.4 times that of the previous 4 years, the \$71.9 million foreign capital being used was 3.75 times greater than that in the previous 4 years. In Dalian, where there was not a single enterprises of joint venture in the past several years, by September this year, contracts had been signed for 15 enterprises of joint venture with Chinese and foreign capital.

6. The unprecedented expansion of economic exchange and the relations of cooperation between China and other countries in the world has enabled China to absorb the rich nutrition of various countries in economic management and technical know-how from which to acquire epochmoving information, widen the field of vision and raise the level.

Since China's legitimate rights in the United Nations were restored, China has begun to participate step by step in multilateral activities of economic and technical assistance of concerned organizations of the UN development agencies. Since the implementation of the opening policy, China's cooperation with the United Nations has been carried out in the form of reciprocity, contributing money and at the same time accepting aid, the cooperation between the two sides has developed fairly rapidly and achieved positive results. China has also developed its relations of cooperation in the International Monetary Fund, the World Bank, the International Development Association, the Transnational Corporations Center, the FAO, the UN trade and development conferences, the UN International Trade Center, the UN agricultural development fund, the UN agency for technical cooperation and development promotion and other organizations. China has also participated in the activities of the United Nations Development Programme, an agreement was signed by both

sides in 1979 when this agency will provide over \$100 million in technical assistance in 1986; 200 items have been arranged. In cooperation with this agency, China has also set up seven regional research and training centers in China for methane, acupuncture, silkworm breeding, fish breeding, small hydroelectric power stations, primary hygiene and rural comprehensive development to train specialized personnel for the Asian and Pacific regions and developing countries. China began to participate in the United Nations Industrial Development Organization in 1972 and, in response to invitation, sent out a number of experts and advisers to serve in other developing countries. China began to accepted technical aid from that organization in 1979.

China's tourist industry has made tremendous strides since its opening to the outside world. In 1966, only 4,500 tourists were admitted and the foreign exchange earned therefrom only amounted to more than \$2 million. In 1979, there were a total of 5.7 million foreign tourists, including compatriots from Hong Kong and Macao and overseas Chinese, and the foreign exchange earned totaled \$260 million. By 1983, the number of tourists visiting China from abroad increased to 9,477,000, including 320,000 foreign tourists, and the foreign exchange earned amounted to \$940 million. International tourism as it developes has earned large amounts of foreign exchange for China, becoming an industry without chimneys, and also made it possible to promote understanding and friendship between the Chinese people and foreigners thus making it an intermediary for cultural, academic and economic and trade exchanges.

7. The development of foreign economic and trade relations has promoted friendly relations between the governments and people of China and various countries in the world, strengthened South-south cooperation, improved China's relations with the Soviet Union and the East European countries and elevated China's position and prestige in the international political arena.

China's opening policy has not only propelled the development of foreign economic trade and the development of economic and trade relations with other countries but also attracted, enriched and improved the friendship and cooperation between the government and people of China and the governments and people of other countries. It should be pointed out in particular that expanding economic relations between China and the developing countries is of great significance. By the end of 1983, China had signed 1,351 contracts for construction and labor service cooperation with 67 countries and regions in five continents totaling \$21.7 billion in value. China has also formed 65 joint venture enterprises abroad with a total investment of \$100 million. Assistance has also been provided to 78 countries and a total of more than 130 projects have been completed and transferred in the past 4 years.

12662

CSO: 4006/133

HONG KONG MEDIA ON CHINA

GUANGZHOU MEASURES ON FOREIGN EXCHANGE-RMB SUBSIDY REVEALED

Hong Kong JINGJI DAOBAO in Chinese No 46, 19 Nov 84 p 20

[Article by Lu Fu [6424 1133]: "Guangzhou Tries Out Comprehensive Foreign Exchange-RMB Subsidy Measures"]

[Text] To solve the settlement of accounts computed on the basis of foreign currency for some of the products sold internally by enterprises under exclusive investment by foreign businessmen, joint ventures with Chinese and foreign capital and cooperative management and the problem of having difficulties in remitting the profits made in terms of RMB, the Guangzhou City People's Government has decided to put into effect on a trial basis provisional measures governing comprehensive foreign exchange-RMB subsidy beginning 1 November.

The provisional measures pointed out: To encourage the investment in Guangzhou by foreign capital and overseas Chinese capital and capital of compatriots from Hong Kong and Macao and in accordance with the guidelines of the central directive of giving up a certain number of domestic markets and exchanging market for advanced technologies, certain enterprises under exclusive investment by foreign businessmen, joint ventures with Chinese and foreign capital and cooperative management having difficulties in striking a balance in revenue and expenditure in spite of every effort made, may be allowed to settle their accounts based on the price computed in term of foreign currency for some of their products sold internally in keeping with three specific measures:

1. Products produced by enterprises under exclusive investment by foreign businessmen, joint ventures with Chinese and foreign capital or cooperative management that are acutely short in the country and must be imported in large quantities may be sold to the foreign trade units and, upon approval, use the formula of "products in place of importation," that is, using the "foreign goods" produced by the coastal cities to substitute for imported foreign goods, to settle the account in foreign currency by computing the price in reference to the price in the international market.
2. Products turned out by the above-mentioned three types of enterprises that have indeed provided advanced technologies, skills and equipment may be sold to the designated commercial departments or purchasing

units at home in accordance with the limits of authority for the approved projects and, after obtaining the necessary approval, settle the account in foreign currency computed in reference to the price in the international market.

3. Settling of accounts for products of the above-mentioned three types of enterprises sold to special economic zones and economic and technical development zones and buying and selling among these three types of enterprises, may be done in foreign currency with the price computed in reference to the international market price.

With regard to the problem of having difficulties in remitting the profits in RMB earned by the enterprises under exclusive investment, joint ventures with Chinese and foreign capital and cooperative management, the provisional measures seek solutions in four ways:

1. Allowing these three types of enterprises to convert the profits in RMB they earn into increased capital in the enterprises or continue to make new investments in Guangzhou enjoying the same treatment granted to foreign exchange investment.

2. Upon approval, these three types of enterprises may purchase from designated enterprises, or commission foreign trade corporations to purchase those commodities not under the state purchasing plans for export, so that the profits in RMB earned by foreign businessmen can be turned into foreign exchange by dint of goods and materials.

3. If the foreign exchange investment and foreign exchange receipts of these three types of enterprises are sold to our country, the authorized amount of foreign exchange may be put under the unified control of the city's foreign exchange control subbureau by setting up special deposits accounts to lay the groundwork for these three types of enterprises for remitting the profits in RMB out of the country later. With regard to this point, the departments concerned will issue specific stipulations in details.

4. Upon approval, these three types of enterprises may settle accounts by computing price in foreign currency by accepting foreign currency certificates or based on the international market price so as to supplement the amount of foreign exchange short.

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TIBET REPORTED OPENING TO OUTSIDE

Hong Kong WEN WEI PO in Chinese 22 Nov 84 p 3

[Article: "Xizang Prepares To Open an Airline Co. Trade Representative Office in Hong Kong Next Year"]

[Text] In a recent interview with this reporter, Duojiecaidan [1122 2638 2088 2481], chairman of the Xizang [Tibet] Autonomous Regional Government, described the special policies being implemented in Tibet and the new measures adopted by the autonomous regional government.

Duojiecaidan said: "Except for the rights of diplomacy and defense, Tibet enjoys every autonomous right. For example, with regard to the documents made known to lower levels nationwide by the central authorities, Tibet has an option to either implement them according to actual conditions, make appropriate adaptations or not to implement them at all. This kind of privilege is not given to the other four autonomous regions of Xinjiang, Nei Mongol, Guangxi and Ningxia. Another example is that while the scale of capital construction through the country is being controlled and cut down, no restriction is imposed on Tibet, instead of cutting down, Tibet is expanding its capital construction and the number of key projects presently under construction totals 107.

"Rural reform in Tibet is different from that in the hinterland because there is no contract system and the requirement to deliver public grain does not exist," Duojiecaidan explained. "We are implementing a long-range fixed policy of independent management with farmland distributed for use by the households; a long-range fixed policy of independent management is also being implemented in the pastoral areas where the domestic animals are owned by the individual households which raised them. The government does not interfere, nor does it requisition by purchase and assign purchase quotas. The same is true of agricultural, animal husbandry and sideline products and native and animal products. The peasants and herdsmen are completely free to produce, buy and sell, negotiate prices and trade their products." Duojiecaidan added: "An important feature of Tibet's economic reform is the vigorous support and development of the collective and individual economies, the existing state commerce is reducing its scale, an open market is established to engage in competition."

Duojiecaidan said: "By 1986, Tibet will be opened up as a Category A tourist zone to the outside world and a permanent trade office will be set up in Hong Kong next year. We wish to enter into direct economic cooperation with all neighboring countries and are ready to engage in transshipment trade. We will set up additional customs posts, customs declarations may be made directly at Lhasa and the tariff is lower than that in the hinterland. Border ports have been opened to develop border trade, and the autonomous region has the authority to issue permits to prefectures, cities and counties for directly engaging in foreign trade without the approval from the state's Ministry of Foreign Economic Relations and Trade. We are preparing to set up an aviation company and open up an international route; we will open up Ngari Prefecture further and set up a second-line customhouse there. In the past, foreign tourists and tourists from Hong Kong and Macao entering Tibet had to obtain approval from the departments concerned, but now they can enter Tibet freely with passports or return-to-the-village certificates."

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HONG KONG SYMPOSIUM ON INVESTMENT IN PRC OPEN CITIES DISCUSSED

Hong Kong WEN WEI PO in Chinese 23 Nov 84 p 8

[Commentary by special chief commentator Jin Yaoru [6855 1030 1172]:  
"Let the World Understand: It Is Opening Wide, Not Restricting--On the  
Symposium on Investment in the Chinese Open Cities as Seen from Hong  
Kong"]

[Text] Is China's policy of opening to the outside world in the nature of opening wide or restricting? This has been a sincere question in the hearts of the people in Hong Kong, Macao and overseas. The Chinese leaders had answered with curt finality: It is opening wide, not restricting. While the people in Hong Kong, Macao and overseas are happy hearing that, they do not quite feel relieved. Does China pay serious attention and truly have the determination to maintain Hong Kong's economic prosperity? This has been another uneasy question in the minds of the people in Hong Kong, Macao and overseas. The Chinese leaders have reiterated: We have attached great importance to maintaining prosperity and stability in Hong Kong and wish to join compatriots in Hong Kong and the British authorities in a common effort to maintain and develop prosperity and stability in Hong Kong. The people in Hong Kong, Macao and overseas are also happy hearing that but are not completely at ease. They are waiting to see the concrete steps taken by China one by one.

In September, the "Joint Declaration" on the future of Hong Kong was initialled in October, the program of the Third Plenum of the 12th CPC Central Committee on reform of the urban economic system was announced; immediately afterwards, in November, the symposium on large-scale investment in 19 Chinese cities and special economic zones opened in Hong Kong. These two major events and one concrete action that followed have mentally and realistically brought forth a better and more powerful answer to the people in Hong Kong, Macao and overseas: China's policy of opening to the outside world is definitely in the nature of opening wide, not restricting; it is progression, not regression; China indeed has attached importance to Hong Kong's economic prosperity and wholeheartedly wanted to safeguard and develop it. Of course, this still is not a final answer. It requires actual economic action after all.



Therefore, the symposium on investment of such an unprecedented scale held in Hong Kong by the 19 Chinese open cities, including the special economic zones and the Hainan Island region, cannot but arouse the people in the Chinese and foreign financial circles, enterprises and trade circles, and make them watch with great interest. Judging and appraising the significance and positive results of the investment symposium held by the Chinese open cities in Hong Kong from the internal point of view, the symposium will promote construction and development of the Chinese coastal open cities; its significance and effect may be more widespread and far-reaching if judged and appraised from the external point of view in the context of the "Joint Declaration" on the future of Hong Kong initialled by China and Britain and the decision of the Third Plenum of the 12th CPC Central Committee on reform of the urban economic system. Judging from the spectacular proceedings of the symposium and its achievements, both the people in Hong Kong and from Macao and overseas and the sponsoring units and the 19 delegations on our side were taken by surprise. From the first day to the sixth and last day, a continuous stream of visitors thronged toward the conference hall used by the 19 subdelegations; inside the conference, traveling businessmen were waiting in line to talk business. The following figures and facts speak louder than words: Over 5,000 formal talks were held in 6.5 days involving more than 7,800 businessmen on different occasions. A total of 1,174 companies and enterprises participated in holding business talks, of which, 747 were from Hong Kong and Macao, 107 from Japan, 98 from the United States, 43 from the FRG, 35 from Britain, 30 from Singapore, 24 from France, 16 from Canada and 16 from Australia; in addition, there were also different numbers of people representing various enterprises and financial circles in Sweden, Italy, the Philippines, Thailand, the Netherlands, Switzerland, Denmark, Austria, Malaysia, Finland, Argentina, New Zealand, Norway and Indonesia. Some of the representatives from Hong Kong and Macao areas engaged in the talks had also represented companies with foreign capital registered in Hong Kong and Macao. This shows that the extensiveness of the talks involved countries from five continents and three worlds.

The great successes scored in the extensive talks of such a magnitude should not be ignored. According to a formal announcement by the main delegation engaged in the talks, items totaling \$4.95 billion (nearly 40 billion Hong Kong dollars) were signed. Among them, 43 were signed contracts, 149 were signed agreements and 249 were signed letters of intention. Delegation chief Wei Yuming [7614 3768 2494] pointed out in his formal announcement: "It was a great success that we could reap rich fruits in such a short period of time."

It goes without saying that contracts accounted for only a small portion of the total amount and a great part of it was committed in the form of agreements and letters of intention. This is, however, compatible with the objective law of things that the short but extensive talks ended with the signing of only a small number of contracts with most of the other commitments made in the form of agreements and letters of intention. The important thing is that in the final analysis these many agreements

and letters of intention represented the friendly wishes and readiness of the great number of businessmen in Hong Kong, Macao and various countries in the world to invest and seek cooperation in China. By so doing, they are laying the groundwork for further advancing and developing cooperation in specific terms and also help China open to the outside world more widely.

If what is explained above is understood clearly, then the statement made by delegation chief Wei Yuming at the press conference after the conclusion of the symposium would have been found proper: "let us understand the world, let the world understand us."

Then, what have we found out about the world from the extensive symposium activities of an unprecedented scale? I am of the opinion that One, the people of the world, including many people in financial, enterprise and trade circles, do cherish friendly and peaceful feelings toward China. Two, they definitely welcome and support China's open door policy. Three, the various countries in the world have truly attached importance to China as a potential market and trust China as an economic and trade partner and are willing to have various types of economic contacts and cooperation with us through different channels and by adopting different means. Four, the steadfast and rapid development of S&T in the world has also brought about the swift development of the forces of production and the economic development to a higher degree (even though their development had gone through a tortuous course). Our contact and cooperation with them are essential and must be developed steadfastly on a long-term basis. In our understanding of the outside world, including capitalist society, at the present stage, therefore, we must do away with certain traditional, orthodox, ossified and outmoded conclusions and steadfastly develop a magnificent world outlook and the fundamental viewpoint of historical materialism with the application of Marxism-Leninism. We must understand anew and master the law of their development. Only by so doing can we unswervingly and boldly promote the policy of "opening wide, not restricting" and use the "stone from other hills" to "polish" the jade of reform of China's economic structure, select the essence and discard the dross and vigorously build a socialist society in China with four modernizations in keeping with the realities in China. This far-sighted idea of "one country, two systems" to assure Hong Kong's future and solve the question of reunification of Taiwan with the mainland is also a new scientific understanding of the economic law of capitalism in the world at the present stage in the light of the ever-developing magnificent Marxist-Leninist world outlook.

On the other hand, what has the world found out about us? One, we have let them understand that China's policy of opening to the outside world is indeed in the nature of "opening wide, not restricting" and that it is not an expedient measure but a strategic policy decision for long-governing and lasting stability based on the doctrine of "knowing the enemy and knowing yourself." Two, we have let them understand that China with a population of 1 billion people is changing from a potential big market into a gigantic market in reality which is capable of accommodating

huge investment and entering into wide-range economic cooperation. Three, we have let them realize that internally and externally China needs a peaceful environment for construction and that engaging in extensive long-term economic cooperation with China is to the advantage of making the world economy prosper and the consolidation of world peace. Four, we have let them understand that China's policy of opening to the outside world and reforming its economic system domestically is an entity itself and that these two aspects represent two sides of the same thing, being both the cause and effect supplementing each other. Opening to the outside world will help reform the economic system which in turn will also help promote the opening to the outside world. Have not the extensive activities in this symposium proved that China while undergoing its reform of the urban and rural economic structure has valiantly made a giant step forward in implementing the policy of opening to the outside world, in absorbing capital from abroad and in importing technology, equipment and the methods of operations and management from abroad?

In conclusion, I might add that we have also let our own people understand themselves. Having realized that the investment symposium of the Chinese open cities was held in Hong Kong instead of other cities in the hinterland and that the activities were conducted on an extensive and unprecedented scale, our compatriots in Hong Kong and Macao can better understand the sincerity and feasibility of this far-sighted idea of "one country, two system" of the motherland which made the arrangement for Hong Kong's future and guaranteed the preservation of the social system in Hong Kong and its economic prosperity and stability. The convening of this investment symposium in Hong Kong is an ample proof that the motherland has attached great importance to the economic position of Hong Kong and to the preservation of Hong Kong as a port of free trade and a world financial center. It will help China's policy of opening to the outside world, the importation of technology and foreign capital and the four modernization if Hong Kong is preserved as it is. Besides, this action taken by the motherland has definitely promoted prosperity and stability in Hong Kong. For example, of the 1,174 traveling businessmen participating in this symposium, 747 were from the Hong Kong and Macao areas and they also accounted for over 60 percent of the 441 contracts, agreements and letters of intention signed. Is it not true that the compatriots in Hong Kong have achieved a better understanding of the policies of the motherland and are maintaining and promoting prosperity and stability in Hong Kong?

Let us understand the world, let the world understand us and let us understand ourselves, this is a tortuous and difficult course. Since the Third Plenum of the 11th CPC Central Committee made its decision at the end of 1979 to shift the focus of the party's work toward economic construction and put forth the strategic policy decision of enlivening the economy domestically and opening to the outside world, since it decided to establish four special economic zones 4 years ago and to

open 14 coastal cities and the Hainan Island region this year and since the implementation of rural economic reform 5 years ago and the announcement of the decision of the Third Plenum of the 12th CPC Central Committee on reform of the urban economic system, China has taken a giant step forward in the socialist road of building China with four modernizations and toward the economic world with great moral strength and in a fearless spirit of understanding and reforming itself anew and understanding the world better.

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RESTORATION OF STOCK MARKET, PAWN SHOPS IN CHINA DISCUSSED

Hong Kong TA KUNG PAO in Chinese 24 Nov 84 p 3

[Article by Tian Ming [3944 2494]: "View on Reopening Stock Market and Pawn Shops on the Mainland"]

[Text] Amid the bustling of all-round economic reform on the mainland and besides preparing for the restoration of the stock market, some people have also put forth a proposal that the pawn shops should also be restored. This shows how open are the people's minds in the economic sphere.

It would be outrageous 30 years ago if some people were to suggest setting up stock markets and pawn shops in a socialist society, they would certainly have been tagged with the label of "restoring capitalism" and accused of committing heinous crimes. For over a long time, whenever stock markets, pawn shops and other such names were mentioned, they were readily disapproved from the theoretical standpoint and by intuition. How many people have actually made an overall study of the stock markets and pawn shops and understand them after all? This kind of disapproval can be described as a dogmatic negation.

Of course, historical facts cannot be denied either, and that the Shanghai stock exchange in old China was an evil place where the people speculated and seized every chance to gain advantage by trickery and where the big fish ate the small fish. Pawn shops had become the arena of the last life struggle for the poor people, and many high-ranking intellectuals in financial strait had no other alternative but to pawn things to get along. Under certain historical conditions, the stock markets and pawn shops indeed showed their negative roles, but very few people have ever made a thorough study or dared to probe to see whether or not they have a positive role in the financial and economic sphere.

Stock is one of the important means to raise funds. The mainland has clearly seen this important role. Several provinces have emerged in which the urban enterprises issued stocks to raise funds and the peasants in the rural areas have also issued stocks to raise funds to run enterprises, Guangdong Province in particular is bustling with such activities. With stocks issued in large quantities, stock markets,

namely, stock exchanges of appropriate scale bound to appear. People in financial circles held that so long as the government formulates measures in line with the national conditions and the actual situation in China to control the subscription, circulation and transfer of stock certificates and to check against financial speculation, the stock exchanges can become a channel to invigorate the circulation of funds, help to enliven the economy and investments in support of construction and improve the standard of living of the urban and rural people faster.

The reopening of the pawn shops to develop the mortgage business is indeed a new issue. Some people are of the opinion that the pawn shops have a channel of circulation of funds have a positive role to play. At present, with the development of the commodity economy, some urban and rural residents at times need money and have to borrow for needs in developing production, for purchasing durable consumer goods or for funeral or medical treatment and other reasons; but today there is no way to satisfy their needs, as very few banks and other financial institutions handle loans to individuals for production and livelihood needs. At present, perhaps there are practically no personal loans being handled by banks in various parts of the mainland. Although in the rural areas there are credit cooperative that may provide credit to the peasants, yet since the implementation of the production responsibility system that inspired the peasants' enthusiasm for production greatly, some of the peasants who urgently needed larger amount of funds have found no place to borrow. It is a fact that usurious loans between individuals have been reported in some places.

Those advocating the reopening of the pawn shops held that the new pawn shops, whose operations are under government supervision and with the interest rate adequately set so that it will not become a heavy burden on the pawners, can satisfy their needs for various types of short-term loans. In this way, it can curb the emergence of usurious loans, solve the pressing needs of the people and also provide a certain amount of profits to be taxed for state revenue.

An article entitled "A New Probe on Pawn Shops" previously published in the "Academic Journal of the Academy of International Politics" in Beijing said that the pawn shop business should be permitted to be restored under the conditions of socialist public ownership today.

In the course of pursuing the all-round reform of the urban economic system, many new questions have been daringly raised and probed, which shows that the invigoration of the economy has also enlivened minds and the opening of the economy will also inevitably open minds.

It is noteworthy that Chapter Two of the "Decision of the CCP Central Committee on Reform of The Economic Structure" promulgated by the Third Plenum of the 12th CPC Central Committee, included a passage: "To bring about a radical change in the economic structure that hinders

development of the forces of production, we must conscientiously sum up China's historical experience and study the concrete conditions and requirement for economic growth. In addition, we must draw on the world's advanced methods of management, including those of developed capitalist countries, that conform to the law of modern, socialized production." It seems that the opening of the minds of the CPC Central Committee has given economic experts the vitality to daringly probe into new issues. Finding out about reopening stock markets and the pawn shop business is only a beginning.

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